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Money

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IN EVERY MONTH

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SAVINGS & GIVEAWAYS

WIN A FREE FINANCIAL PLAN WORTH $5500
PAGE 25

FOLLOW *MONEY* MAGAZINE ON TWITTER www.twitter.com/moneymagAUS

Financial makeover can boost wealth

"Do you know a good financial planner?" It's a question I'm often asked. My answer is usually to read the magazine, as we do use quite a few planners in our stories each month. If you like what they say, give them a call. This month I'm really excited to offer one reader the chance to get their own financial makeover. With the Financial Planning Association, *Money* is launching a "make me over" competition. A personal financial planner, given the tick by both *Money* and the FPA, could be the very thing you need to start building wealth. Details of the package (valued at $5500) can be found on page 25.

On the subject of building wealth, it will certainly pay to save a little outside super. Yes, super is the most tax-effective vehicle but the rules keep changing. If the government is returned in the 2016 federal election I may have to wait until I'm 70 to access the pension and until 65 to get my hands on my super. I don't want to be told when I can retire, so Susan Hely is right on the money when she says "with so much uncertainty there is no better time to broaden your approach to build wealth outside super".

For those of you in Sydney, I hope to see you at the Property Buyer Expo. For your free ticket see page 90.

feedback

LETTER OF THE MONTH

Hard work takes its toll

How very true that "The goal posts keep moving" (September, The Buzz). I have always enjoyed sport, hiking and physical work for many years on a large farm, with the thought that my retirement age would be 60. Now the goal post has moved to 65.5.

I am well past 60 but not yet retirement age. I am in good health but this year I am feeling very tired and have just had enough. My course of action will be to quit work at the end of this year and live on my super until I am 65.5.

One policy does not fit all but how a sedentary politician might empathise with an ageing concreter, builder or farm worker, I don't know.

Dell, Qld

PS: You may wonder how a farm employee can afford to buy *Money* magazine. I don't – I borrow it from the local library.

How money grows

I loved Paul's article about the money tree (In your interest, September). I think it was Albert Einstein who called compounding the eighth wonder of the world and Paul showed just how powerful even $10 a week can be when regularly invested. Marcus Padley described it even more clearly in an earlier issue when he stated that his Big Mac was not costing $5 but rather – if he had invested the money in his mortgage instead – over $30. Since reading Marcus's article and with the refresher from Paul I am now more mindful of all my purchases. That does not mean not spending money on yourself and family. A few simple lifestyle changes – like fewer takeaway coffees – could mean early retirement or an extra holiday or two if you start early enough.

And let's face it, who on their death bed ever said "I wish I had had more hot chocolate or smoked more cigarettes"?

David, email

Friend finds inspiration

I recently purchased an investment property in Melbourne and mentioned this to the other mums at my child's playgroup. A discussion ensued as to the tight family budgets we all have with youngsters.

The overwhelming question was, "How did you manage to buy an investment property?" I listed several strategies such as "pay yourself first", "do a budget" and "invest the difference". The ladies all wanted to know where I had learnt all this – and I had to reply in *Money* magazine!

The next week one of them approached me again to say she had just written her first budget and bought a copy of *Money* – in her words she had been "inspired". Thanks *Money* for helping me, and hopefully my new friends too!

Kellie, email

Follow these principles

I have been reading *Money* for a number of years now. I can say without a doubt that the information has saved me thousands of dollars over time. What I really like about the magazine is that it starts with what I call the first, second and third principles of investing and savings.

First, as Paul is so often fond of saying, just make sure you spend less than you earn. Fortunately for me this has never been a problem and probably came about because as a child there was never any money to be had! What I did get was usually derived from picking up empty drink bottles from the side of the road and redeeming them for cash.

The second principle is a bit more difficult because it entails buying investments close to the right price, holding them for a sufficient time frame and then usually selling for a profit. Again this is not too difficult as long as one has a job, discipline, a realistic and simple plan and preferably an understanding family.

The third principle is about being careful with whose opinions one takes notice of.

Money talks about this stuff all the time and that's important because these positive messages are continually driven home and reinforced. This helps one overcome inertia and actually take action. I really believe that by reading this magazine and abiding by the three principles, one will eventually become financially independent. Keep reading.

Peter, WA

PRIZE WORTH WINNING

Each month we'll award one letter a 12-month subscription to *Money* magazine.

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Money

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How to boost your super! The strategies you need to know.

SAM HENDERSON
HENDERSON MAXWELL

Is an SMSF right for you? How to set one up and manage it well.

EFFIE ZAHOS
EDITOR,
MONEY MAGAZINE

INVITATION

When: Tuesday, October 20, 2015

Time: Registration: 6.00pm. Masterclass: 6.30pm - 8.30pm.

Venue: Doltone House Hyde Park
Level 3, 181 Elizabeth Street, Sydney

Tickets: $55 per person from
www.eventopia.co/moneymagazinemasterclass

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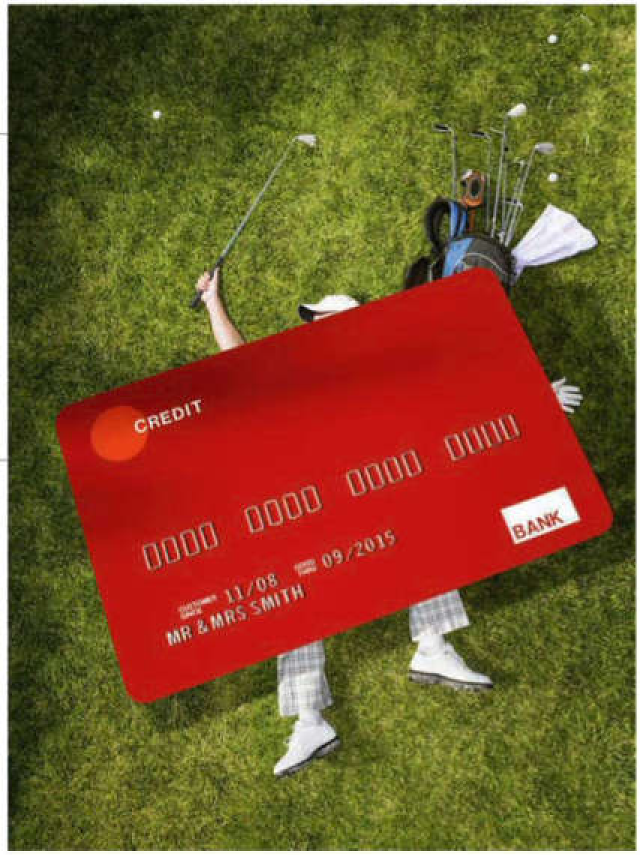
Paul Clitheroe sees a simple solution to the credit card debt trap: just tell people the painful truth



RECENTLY I WAS asked to attend the Senate economics committee hearing into credit cards by its chairman, Senator Sam Dastyari. I was pleased to be asked to present to the hearing, and it turned out to be a valuable day as I was one of three presenters for a session with my very old friends David Koch and Ross Greenwood. Ross, of course, is well known to *Money* magazine readers with his regular column and his role with Channel 9. David Koch is well known as the host of *Sunrise*.

The three of us go back a long way. I have known Kochie since 1979 and Ross since the mid-1980s. For many years we each had a money-type TV show. Kochie was hosting *Your Money and Your Life* on Channel 7, Ross was on *Healthy, Wealthy and Wise* on Channel 10 and I hosted *Money* on Channel 9. These were the days before the internet and Foxtel, so audiences were huge. My *Money* program used to draw more than 3 million viewers on a Wednesday at 8pm and was the reason we launched *Money* magazine in 1999.

So the three of us fronted up to give our views on credit cards and to take questions from the senators. Ross gave an interesting presentation about margins on credit cards. Over the decade, as interest rates have fallen, credit card rates still sit at astronomical levels, greatly enhancing bank profits on cards. Kochie pointed out, among other issues, that the minimum repayment has steadily dropped and now will not even cover the interest charges.

All three of us spoke about the market power of the big financial institutions. This is a real challenge for consumers. Never in history could a vast proportion of our population spend money we do not have and in some case may never have.

The credit card is a wonderful thing but only a relatively small number of people actually win the game. How to win is easy. You get a high-reward points credit card and you spend a very large amount on it, paying it back inside the interest-free period. This way you get free use of money for the interest-free period. Providing you put a lot on the card – I'd suggest $50,000-plus a year – the reward points will offset the high fees these cards tend to charge.

I used the example of how to win with any RSL or leagues club. If you pay your $10-a-year membership or whatever it is and trot along on "specials" nights, eat the cheap food and drink during happy hour, you are truly a financial genius, providing you do not play the pokies. In that way clubs and cards are very similar. If you "play the game" by avoiding the bad bits, namely fees and interest on credit cards and losing your money on the pokies, you will end up in front. The trouble is you get subsidised by the large number of "losers".

My major point was around "balance transfers". These are just debt traps. The problem is they are very clever debt traps. It sounds so sensible and financially literate. You take your, say, $10,000 debt on a typical 18% interest credit card and switch to an interest-free card for up to two years. I am hugely in favour of going from 18% interest to zero, but the banking brilliance in this little game is that everyone pretends to forget the bleedingly obvious truth. The reason people have credit card debt is that they spend more than they earn. No one mentions this; it would ruin the debt trap game.

So you transfer your $10,000 to a zero-interest card. Chances are you don't cut up your original card. You ignore the inconvenient truth and keep spending that $10,000 a year more than you earn. Sure, this might be "only" $5000 a year but it will soon catch up with you. Let's go with the $5000 example. You have zero on your original card and $10,000 on the new zero-interest card. Spend $5000 a year more than you earn and in two years you will have $10,000 on the old card and $10,000 on the new card, which converts after the interest-free period to an 18% to 21% interest card. Both cards have a fee.

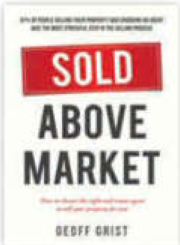
This really is marketing genius. No one mentions the real issue. The solution is not a zero-interest card; it is a program that works with you to set a budget, control your spending and get the original $10,000 paid off. Naturally, lenders don't like the real solution – they want you in debt. So here I think politicians, regulators and the media need to step up.

I know we don't want to be told to spend less and to get our money under control. Just keep doling out the candy, in this case a candy called credit. But we are not stupid people. We know full well that high-interest debt will kill us but it is not in the lender's interest to tell us the truth and I fear politicians don't really want to tell us either!

Someone has to. This is the key solution to credit card debt. It is just the truth, painful as it may be.

GETTY IMAGES

BOOK OF THE MONTH



SOLD ABOVE MARKET

Geoff Grist

MAJOR STREET RRP $29.95

It's stressful enough getting your home ready for sale let alone finding a real estate agent you're happy with. According to author and entrepreneur Geoff Grist, 67% of sellers nominated choosing an agent as the most stressful step in the process.

So how do you find the right person? Grist's tips should help you make the decision.

First he has some questions for you as the seller: What are your reasons for putting your home on the market? What are your goals? (These include your time frame and the price you have in mind.)

Grist then takes a look at the real estate agent: the differences between agents and agencies; the qualities possessed by a good agent; the role the agent will play; and what you should consider in making your choice.

He also discusses the process of selling your property and how you will work through it with your agent. Selling a property is not without its ups and downs, so he concludes by going over what can go wrong and how best to handle the unexpected.

EMI BERRY

Ten readers can win a copy

In 25 words or less, tell us what you look for in a real estate agent.

Send entries to Book of the Month, *Money*, GPO Box 4088, Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close November 4, 2015.

THE BUZZ

Pension is under pressure

Super to play bigger role for younger generations

Ballooning old-age costs are under the microscope. The cost of the age pension exceeds $41 billion a year and is expected to grow to $50 billion within four years. As the population ages and lives longer in retirement, the cost will keep growing.

The age pension makes up 10% of all government expenditure, according to Rice Warner's findings in the Institute of Actuaries' report *For Richer, For Poorer.*

One of the risks for retirees and pre-retirees is reliance on the age pension. Already more than 326,000 retirees have had their pension reduced or eliminated in this year's budget. The report finds half of the population has a strong dependence on the age pension. In putting a value on it for people retiring today at 65, it says that to purchase an equivalent income they would need a capital sum of $816,000 for a couple, $419,000 for a single male and $482,000 for a single female.

One of the latest developments in the analysis of the retirement system is putting the family home up for discussion in the retirement debate; before it was always excluded. The main home owners are baby boomers rather than younger generations.

According to projections for the older baby boomer generation, retirement wealth from the family home is around 49% of their total assets, with 43% from superannuation. But because the younger generation is projected to have a lower level of home ownership, a 30-year-old's retirement wealth from the family home will make up only 32% of their wealth, with 61% from super.

Thirty-year-olds will do well from super as they will benefit from a lifetime of super guarantee contributions, currently at 9.5% of income and due to rise to 12% over time.

As Australians build up their super balances, they will depend less on the age pension. However, the pension will remain the foundation for families on lower incomes, who need it to have an adequate standard of living.

There are plenty of conflicting views on whether any more changes need to be made. Rob Heferen, Treasury's head of revenue, was reported in *The Australian Financial Review* as saying that the low tax rates for super were fair because the highly paid have to pay a contributions surcharge and there are limits on how much people can deposit in their super accounts. SUSAN HELY

THE BURNING QUESTION

Can I dispute my land tax valuation?

Liam Shorte, director,
Verante Financial Planning

Investment property owners are likely to receive a shock as significantly higher land tax assessments are expected this year and beyond, as a result of soaring land values in NSW and Victoria. Other states do not seem to have had the same increases.

Unimproved values on which land tax is assessed increased by more than 11% in 2014, reports the NSW Valuer General, and this will form part of the next tax assessment based on the average of the land value for the current tax year and the previous two years.

The most important factor the VG considers in determining land values is sales of similar properties in a particular locality.

Investment property owners should pay close attention to the land value stated on the assessment notice and monitor sales of similar properties. If you are concerned with any substantial increase in land value and therefore tax, you should consider having it reviewed.

Objection forms are available by calling 1800 110 038 or you can use the online objection facility on the Valuer General website. An objection must be lodged within 60 days from the issue of the assessment. Supporting evidence for a lower valuation should be provided, including details of unique aspects of your property such as unusable portions and sales of comparable properties. For contacts for other states, visit moneymag.com.au and click on "This month's issue" tab.

FREE MONEY

Switch to age pension

I receive the Newstart allowance and am approaching age pension age. Will I need to go through the whole claim process again if I switch to the age pension?

The age pension is usually the most appropriate payment for people 65 years or older but any superannuation you have may affect your eligibility or the amount you receive.

The new transfer process is quicker and easier than completing the full age pension claim form and, better still, can be done online. Preparing for retirement is a busy time for most, so we're taking steps to simplify the process.

We now send you an invitation if you are receiving an eligible income support payment from us to transfer to the age pension once you are within nine weeks of reaching eligibility.

For more information about what payments are eligible for this streamlined transfer, visit humanservices.gov.au and use the search function for "transfer to age pension".

Another resource is our free financial information service. Visit human services. gov.au/fis to find out more.

HANK JONGEN, DEPARTMENT OF HUMAN SERVICES

BOTTOM LINE

Play the US sharemarket – but be careful

Here are two new exchange traded funds (ETFs) that invest in the US sharemarket but with a twist. The BetaShares Geared US Equity Fund – currency hedged (hedge fund) (ASX: GGUS) allows you to gear into the US market while the BetaShares US Equities Strong Bear Hedge Fund – currency hedged (BBUS) is designed to allow investors to profit from the market's falls.

The geared fund invests in the 500 largest securities listed in the US, weighted by market capitalisation. Its gearing ratio will generally vary between 50% and 65% and the fund takes care of the borrowing. Investors are not exposed to the risk of margin calls. If there is a 1% fall in the US sharemarket in a day, the ETF will deliver a 2% to 2.75% increase in value. But if the market rises by 1%, the value will fall by 2% to 2.75%.

The bear fund invests in cash and sells futures contracts such as the US S&P 500 equity index futures contracts. When the US S&P 500 falls, the fund return goes up but when it rises the return goes down. The fund also uses a short position, which varies between 200% and 275% of net asset value.

Australian investors have poured $1.2 billion into overseas ETFs over the past six months. BetaShares managing director Alex Vynokur says the two new products allow informed investors to tactically manage their US market exposure without the complexity of instruments such as contracts for difference (CFDs) or the risk of margin calls. SUSAN HELY

JIM TSINGANOS

MONEY VERDICT

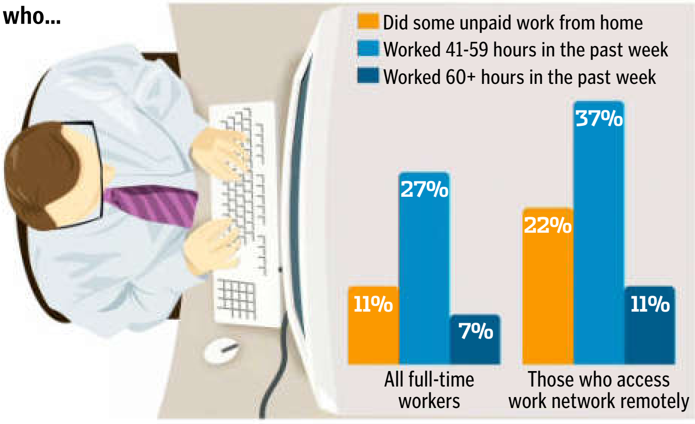
Approach with caution as these are not your plain vanilla US share ETFs tracking an index. They need active management because the gearing magnifies gains and losses. They are more volatile, with larger moves up and down. You need to do your homework and understand the risks. The funds are ideal if you are experienced with hedging and gearing. Also you will pay active management fees: 0.74% (geared fund) and 1.19% (bear fund).

For more on investing in the USA, see page 70.

ALWAYS ON CALL

Close to 1.5 million full-time workers, or 20%, used the internet to access their work network remotely in an average four-week period in the year to June, reports Roy Morgan Research. They used a computer (18%), a mobile phone (7%) or a tablet (3%); 1% used all three. These conscientious workers are also more likely to do unpaid work. And employers should note: remote networkers are about 30% more likely than other full-timers to be dissatisfied with their job or to search for a new job online. LINDSEY LEATHART

Proportion of Australian full-time workers and remote networkers who…



SOURCE: ROY MORGAN SINGLE SOURCE, JULY 2014 to JUNE 2015

APP OF THE MONTH

Flio

Cost: Free **OS:** iOS

Frequent flying may not be as glamorous as you think. If travelling is part of your job, you'll know the importance of resisting the lure of the world's most exclusive airports – some with their pools and spas, others with their golf courses and casinos. And buying airport food and goods can cause major stress on the credit card. But now, with the new Flio app you can shop around without feeling too guilty.

Flio is effectively a database on international airports: it has all the information you need to help you travel safely and productively, including exclusive digital discount coupons for selected stores and restaurants. Saving a few dollars at Starbucks every week can make a big difference to your budget, so if you are a bit of an airport spender it's worth downloading the app just for the coupons.

The current version of the app is only available on iOS, and only provides shopping discounts for some European airports. STEPH NASH

WHAT'S NEW

Bitcoin suffers an identity crisis

Virtual currency reaches a fork in the road

Just as its popularity had increased in Europe, boosted by Greece's economic travails, bitcoin's future looks unstable. The original bitcoin code was "forked" by software engineers in late August to create bitcoin XT – a copy of the original with better processing capabilities.

The development has split the bitcoin community, with no consensus as to whether the two currencies will merge or exist separately. Bitcoin XT aims to be able to process more transactions per second than the original currency, which critics say will reach its physical limits by early 2017. The new features are projected to be in place by January next year but only if 75% of bitcoin "miners" switch to the new currency.

A trust in vehicles

Charter Hall's newly launched Direct Automotive Trust is an investment vehicle that indirectly invests in vehicles. The unlisted retail property trust is seeking to raise $55 million to acquire three car dealership sites in Sydney and Brisbane. They are leased by the listed Automotive Holdings Group. Charter Hall is calling for a minimum investment of $20,000 for an initial six-year term. The portfolio value is estimated to be $102 million, with annual income forecast to be 7.5%. The offer's closing date is June 30, 2016.

Deductions app

Filing your tax return is about to get a whole lot easier. The tax office's new myDeductions app allows you to file your tax deductions on-the-go through the year. Use your smartphone camera to capture receipts, which can be stored on the app and used as reference for claims.

You can file claims on the app for car expenses, general travel, clothing, self-education, mobile phone and internet, gifts and donations, and even your tax return expenses. Claims will be pre-filed to your 2015-16 tax return, making it easier to keep track of deductions.

But beware: the ATO doesn't have a great track record with technology (search the internet for "myGov problems" and you'll see why), so you should regularly back up your smartphone in case of technological issues. STEPH NASH

TAX TIP

Feel-good factor

Deduction is a bonus for donation to charity

We all feel good about giving to charity but what makes it even better is that, in many cases, the tax office will allow you to claim a deduction for your donations. Basically, provided you're giving to an organisation registered as a deductible gift recipient you should be able to claim a deduction. Most major charities are registered but if in doubt you can check at abn.business.gov.au.

If you give cash, you can claim a deduction for gifts of $2-plus. For gifts of property, there are rules depending on the type of property and its value.

You can claim the deduction in the tax return for the income year in which the gift is made. You'll need a receipt to substantiate the deduction. If you used the internet or phone to make a donation over $2, your web receipt or credit card statement can be used. If you donated through a third party, such as a bank or retail outlet, the receipt is sufficient. If you contributed through workplace giving, your payment summary shows the amount you donated.

You can't claim a deduction for anything that provides you with a personal benefit, such as raffle tickets (though you can claim a deduction if you've spent more than $150 for a ticket to a fundraising event such as a fete, gala or dinner).

MARK CHAPMAN, DIRECTOR OF TAX COMMUNICATIONS, H&R BLOCK

By putting people before price, an online entrepreneur has changed the way wine is made and enjoyed, writes Deborah Light

Guardian angel

LUKE JECKS LOOKS an unlikely international CEO. Relaxed and genial, he's kitted out in jeans and runners and wears a fashionable fuzz. Then there's his global HQ – a desk among his 35 staff in a crowded space above a modest marina on Sydney's northern beaches. Most are there to take calls from members. They call themselves the customer happiness team and they call their members angels.

Jecks is founder of Naked Wines Australia, an online wine merchant whose nearly 40,000 members crowdfund fledgling winemakers. The "angels" – a term that originally described benefactors who provided backing for Broadway shows – pay $40 a month against future purchases for wines exclusive to the company at discounts of 25% to 50% on the price paid by regular buyers on the site. "It gives us a bit of a guarantee," Jecks explains. "If you have roughly 40,000 angels, times $40, that gives us $1.6 million a month to invest in winemaking. The thing that worked for us was not the funding, though that's important – it's how sticky it makes the customers; how it drives repeat business and that's what matters in the online world. Wine-making is very capital intensive and it's 12 months before you see a cent of return. Then there's the scary issue of who's going to buy it? "

This company model takes the cost pressures of making and marketing off small producers, Jecks believes, and since its launch three years ago $20 million has been invested in some 30 independent winemakers in Australia and New Zealand which supply around 80 wines, exclusive to Naked Wines. There are waiting lists for angels and winemakers, so that demand and supply forecasts are in sync, he says. "We're a kind of dating agency, putting the two together."

FACT FILE

Luke Jecks, 43, founder of Naked Wines Australia and CEO of Naked Wines International. Lives Newport on Sydney's northern beaches.

Former director of sales and marketing, Cellarmasters. Named among top 50 online retail executives by *Inside Retail* and among the top 50 wine stars by *Australian Wine Business Magazine*, both in 2014. First job, letterboxing real estate pamphlets, age 13.

Jecks is no wine snob, even after 20 years in the industry. He's not into raspberry notes, peppery finishes or hints of lychee, even though he knows the lingo. "I love wine but it has its place. It's a great complement to a meal, a great way to wind down from work and a glass of wine when I'm cooking is fantastic. I think for too long the wine industry has tried to use amazing descriptions of wine to get people engaged whereas they are less interested in that than they are in the human story behind the wine."

Those stories had become lost, Jecks believed, trampled in the race to the bottom by Coles and Woolworths, which now sell 77% of all wine in Australia through their vast liquor arms and eternally squabble over price. He'd long been dissatisfied with what the wine industry had become: "When the catchphrase, the point of differentiation, is lowest prices guaranteed, you've lost the inspiration on a product that should be inspirational. People appreciate low prices – but what does it take to get to those prices? It's turning wine into a commodity. It's taking all creativity from the producers and they're consolidating so there are less of them. And they're no longer having discussions around wine that's inspiring, but about how much money they can take out of the production to get down to that low price."

Jecks had stumbled into his career. Two years into a law degree he'd pulled out. "I realised that just because you're qualified to do law isn't good enough. You have to be interested in it. It wasn't my future." Looking around for that future, he played football, delivered pizzas at night and wound up with a part-time job at Cellarmasters where he proved an early achiever. "Because of the way I got into business I never got schooled in the politics of business: there's a ladder and you climb the rungs. I never saw the ladder. I was quite happy to walk into the CEO's office and say, 'Hey, what are we doing this for? Here's a better idea.' And it worked for me. I got recognised and I got opportunities."

Still in his 20s he was posted to Switzerland to start a company for parent Foster's. He also worked in the UK for Virgin Wines where he became friends with former Richard Branson

PHILLIP CASTLETON

"I never got schooled in the politics of business – I never saw the career ladder"

Play time ... Jecks gets up early so he can go for a surf and spend time with his family.

executive and Naked Wines founder Rowan Gormley, who persuaded Jecks to take the name to Australia and provided start-up funding. After Britain's largest independent liquor retailer, Majestic Wines bought out Naked Wines earlier this year, Gormley moved to the CEO role at Majestic's helm while Jecks became international CEO of Naked Wines – which also has operations in the UK and the Napa Valley in the US. Jecks first knocked the job back, reluctant to move his young family to the US. When it was re-offered, his wife Peta was supportive but, says Jecks: "I had two boys in school and one had been having a hard time and suddenly it clicked for him and he had mates and he was happy." He again refused. "I've never felt more proud of anything I've done than when I hung up the phone and said to myself, 'I've just picked my family over a global CEO role.' "

When the job offer returned without the requirement to relocate, Jecks was happy to take it up and money didn't play much part in the decision, he says. He points out he'd turned his back on a senior career with Woolworths, including share options and company perks like a car, following its acquisition of Cellarmasters, so he could launch Naked Wines here. "It was a massive risk; there was just me working in the kitchen, having to go round and find the warehouses and so on. I enjoyed the idea of doing things that are below and above me. As an entrepreneur you have to be prepared to do that; things you've never done before and just work your way out."

Jecks quickly realised he'd underestimated the concept's appeal. "It's a scary thing. A week from launch and you're standing in the warehouse and there's $2 million worth of wine – walls of it – and you go 'Wow! I better do something with this stuff', and the responsibility was huge. Three months later I was standing there going, 'I don't think we've got enough.' I was so concerned we used investors' money carefully that we almost ran out of wine because I was planning for: what if this thing fails? What I wasn't planning for was: what if it succeeds?"

A key factor in the success has been staff input and Jecks believes a robust company culture is critical. "I've worked in dictatorships. I've seen leaders who lead with power and those who lead with inspiration. I think that for a company to truly succeed the staff have to be inspired; they have to feel like it's their company."

In this case, it's partly true because all staff were made shareholders in the local operation. Jecks recalls that, after the Majestic takeover: "I've never had a better experience than sitting here, handing cheques over to our people." The next generation of staff shareholding is about to begin under the new parent, he says.

Jecks's family remains a priority, despite an increased workload that includes a week a month in the UK and one every two months in the Napa Valley. He rises before 5am, goes for a surf or exercises, then does breakfast for his kids and gets them ready for school. "I worked out once you start work, work determines when you stop if you're an entrepreneur or senior executive. It's too easy to come home late and say, 'Sorry I missed your bedtime, I'll make it up to you.' It was also my own health. I want to be fit and find time for myself so the only way for me to ensure my family gets time is to get up early – then it doesn't matter so much if in the evening something runs over."

On what money means for Jecks, he says: "I've realised your propensity to spend increases with your propensity to earn," and adds, laughing: "When I was at university living off $70 a fortnight I felt as well off as I do now." But he's not interested in trophies. "I'd rather have a collection of little entrepreneurial businesses that are making a difference than a collection of cars. I look at the boats out there on the marina and I know they're just possessions, they're not that fulfilling, but the things that you can do with money – like help somebody's life - that's when it's really fulfilling."

On what he tells his sons, aged 11 and 9, about money: "I teach them that possessions lose their value pretty fast and I teach them not to value somebody based on their money." They're obviously learning something. Jecks's eldest has started his own company – Smiley, skateboards by kids – for kids, and dad is a 5% shareholder.

Jecks's own mum and dad started family life in Perth state housing, having become parents at 17, and Luke learnt by their example. "They had a hard start. All they wanted was that their kids would have a better, more comfortable life than they had and they worked their butts off for that. I have that instilled in me and I want to pass that on to my kids. I'll work my backside off for that as well."

PHILLIP CASTLETON

CASE STUDY

Look before you leap

Be aware of the pitfalls in buying an off-the-plan property, writes Susan Hely

NAME: Young-Sun Hwang.
STATUS: Home owner who wants to buy an investment property.
QUESTION: Is it a good time to buy an off-the-plan investment property in the Brisbane suburb of Cannon Hill? Are interest rates going up in the near to medium future? What would happen to my 10% deposit if my circumstances change? The developer projects rental of $440 to $480 a week – is this realistic? Should I boost my super instead of buying an investment property? Do I need income protection insurance?
SOLUTION: Don't buy off the plan as there are plenty of things that can go wrong. Consider boosting your wealth either through your super fund or outside through a regular investment in managed funds. Or buy an established property that can be immediately tenanted.

YIANNI ASPRADAKIS

Buying an off-the-plan property is a leap of faith. Young-Sun Hwang wants to build her wealth and wonders if this is the best way. She bought the one-bedroom home where she lives 16 years ago. She has reduced her home loan to a manageable level and plans to leverage off the equity to buy an investment property. Young-Sun has found a two-bedroom apartment for $440,000 in Brisbane. Her research shows Cannon Hill has good infrastructure, schools and shops and is close to the CBD.

The broker has told Young-Sun that she can pay a fixed rate of 4.89% for five years on an interest-only loan. Young-Sun is concerned interest rates will rise and that she will have to repay more than she has estimated by the time the development is finished. "Do you think interest rates will go up? When and by how much?" The broker is keen for her to put down a $1000 deposit to hold the property and pay 10% when the contract is signed. Young-Sun wants to know if she would lose her deposit if she decides against buying. The developer estimates the rental return will be about $440 to $480 a week. Is this realistic for the area?

Young-Sun wants to know if she is on track with her super. She has two funds, one industry and the other retail. Is it worth claiming back the trailing commissions on her retail fund?

She has no income protection insurance. Should she take it out through her super fund or outside super?

Buy something you can see

MARGARET LOMAS

Margaret Lomas is founder and director of Destiny Financial Solutions and the author of nine best-selling books on property.

One of the interesting things I find about this question is that Young-Sun has asked many questions about the property itself and her broker has told her she can afford it, but no one seems to have asked some of the more important questions: Is Cannon Hill the right place to buy at this moment in time? Is there evidence of demand? What are the growth drivers? What is the supply like at present? Is this property at market value?

Most investors become investors the wrong way – they see a property they like the look of and decide it's time they invested! This sets them up for failure, as they do not consider their personal needs and financial circumstances and whether the area and its future growth potential are suited to those personal needs.

I checked the area and found an abundance of new apartments are being built. The developer quotes a rental return of 5.2%-5.7% but, in my experience, off-the-plan buyers in a location where so many other developments are under way, rarely achieve anywhere close to this.

I'd also like to ask Young-Sun's broker why he is so keen on this. It's almost the complete opposite of the brief she gave him – a house or in a small complex and not a new build. One wonders whose interests are being served here. I'm willing to bet there's a handsome commission coming his way when she signs – it can be 5%-10% of the total cost!

Make no mistake, this has been added to the purchase price and Young-Sun will lose if the market doesn't boom and this market is unlikely to, with so much supply due to be added by settlement time.

The risks you face when you buy off the plan are many and include:

1. A loan approval today is not a promise – the bank has to reapprove just before you settle. It can change its decision based on your job situation and also on the valuation of the property. If it is valued lower than the price you pay – which it might well be – the bank may lend you less. Lending policy may change in the meantime, too, and you will have to satisfy any new criteria.

2. There is the possibility of not getting a tenant due to the oversupply, or of having to drop the rent so low that your cash flow is very negative.

3. The property may be worth less than you pay when you settle – but you must proceed as you will have a contract – so your equity in the property will be lower.

4. The property type may be wrong for the demographics of the area. Have you researched what type of people live there and what kind of property they want? This can lead to even less demand from both renters (lowering your potential yield) and future buyers (lowering your gains from the potential growth).

5. Personal circumstances may prevail and you cannot proceed – meaning you will lose the full 10% deposit as you are locked into a contract.

6. While you wait for settlement, you may not be able to borrow to buy another property if you wish to, as a lender will want to see the outcome of the pending deal before committing you further; your acquisition of more investments could be stalled.

I am of the strong belief that off-the-plan purchases are suitable for owner-occupiers but investors should stick with buying what they can see and what can be immediately tenanted. This way you can do all the research based on what is happening today, you can have a property in your portfolio right now and build from there, and you can be sure that you have a tenant and will earn an income immediately. You can also lock in a rate now – if you are worried about rate rises – and you can be ready to move on to your next investment straightaway.

Pam Walkley also writes about off-the plan risks on page 58.

Savings plan would be better

JONATHAN PHILPOT

Jonathan Philpot specialises in wealth management as a partner at accountants and advisers HLB Mann Judd in Sydney. hlb.com.au

I am not a fan of purchasing an investment property off the plan – and it is the actual rental return that normally catches out investors. If the majority of other buyers in a property development are also investors, the promised rental yield does not become reality; the supply is much greater than demand and rents fall until all the vacant units are filled.

My bigger concern is borrowing or gearing to purchase a property when job security is a little unknown – it is a high-risk strategy. You have done all the hard work of reducing your mortgage and I expect you would fully extinguish this in the next few years – that is a terrific milestone. The next step is to build your investment wealth and it does not have to be through borrowing.

I would consider a strategy of building wealth in your own name and in super once the mortgage repayments cease. I like the idea of a simple savings plan into a managed fund that has a diversified portfolio of Australian and international shares. This will spread your wealth away from Sydney property and, importantly, you can set it up to happen automatically every month. This savings plan will be the driver of your investment wealth and gives you access to savings that are easily accessible, unlike an investment property.

I would also consider salary sacrificing into super, say $1000 a month. This provides you with a tax saving, reducing your income in the 37% (plus Medicare) tax bracket and also building up your wealth for retirement. If you wish to build sufficient wealth for a desired retirement lifestyle, it takes much more than the compulsory super contributions to reach the required sums.

You also currently have two super accounts – consider consolidating them to save on fees and better manage your super.

I would also consider income protection insurance. Your biggest asset is yourself, in particular your future earnings capacity, so making sure that this is insured in the event of illness or injury is important. While the cover can be held within super, often cheaper and better insurance can be obtained in your own name; it will also be tax deductible.

Tom has already learnt the ...

Secret of saving

Q G'day Paul. I read *Money* every month and would love some advice to set me up for the future. I'm 17 and in my first year of a carpentry apprenticeship earning $21,200. Once I complete my apprenticeship I wish to be self-employed. I have $9000 in an online savings account, $15,000 in a term deposit and shares worth a little over $4000. I'm wondering how I can approach the next few years.

A Straight off the bat, it looks as though you've done a great job saving over the past couple of years to accumulate $28,000 in cash and shares. Getting into the right finance habits early in life sets you up to continue making good decisions as your salary and expenditure grow over time. So it's great to see that you've had a part-time job as a youngster and, importantly, you've learnt to spend less than you earn – this is the key rule.

As an apprentice you're going to be on a modest wage. It's going to be difficult to put aside any meaningful savings or think about making any big investments. The trick over the next three or four years is to focus on learning as much as possible and completing your apprenticeship, so I wouldn't be too worried about building wealth yet.

It is important, however, that you continue

to maintain good financial habits, such as spending less than you earn each month and putting a little bit aside from each pay. I'd also steer clear of credit cards if possible. While it's OK to use them as a convenient way of paying for day-to-day expenses but if you do, make sure you pay the balance in full each month as credit cards can easily become a debt trap.

For the time being, focus on finishing your apprenticeship and building your skill base. Once you have industry experience, contacts and higher wages in years to come, you can really utilise these assets to build wealth.

Nupur's careful spending has ...

Home plan covered

Q I am 35 and I have two children aged six and two. I work part time and earn $30,000 a year. My husband earns $40,000. We have a house worth $380,000 (owing $150,000) and $40,000 in an offset account. I have to go back home every year and also help my family financially, perhaps $300 a month. We have a desire to live in the Wembley-Subiaco area in Perth where property prices are up.

What should we do to help us get ahead in life? Should we invest in another property worth about $350,000? Should we buy a unit in our desired area and later on sell the house, as it will be very highly positively geared? Or should we buy a unit in our desired area and then in two years move there and sell the existing house?

A With two young children and modest salaries, you've done extremely well to pay off more than half of your home mortgage and have $40,000 in your offset account, all the while helping out your family every month. It's clear that you've both been very financially responsible and should be proud of your achievements. It goes to show that building wealth isn't only about how much you earn, it's also about how well you're able to budget and keep control of your spending.

While it may be tempting to buy a second property, I don't think taking on additional debt is necessarily the right decision at this point. First of all, you'd be doubling up on exposure to the West Australian property market, which could possibly be impacted by falling commodity prices. Second, it will put strain on your finances that you don't need, and it will also make you reliant on rental income to make ends meet each month.

At the end of the day, if you do want to move to a more desirable area and keep this within your means, it might be a safer decision to sell your current house at the same time you buy your new home, to avoid both doubling up your property exposure and being out of the market. In the meantime, keep sticking to the formula of budgeting and saving, which has worked well for you in recent years.

GETTY IMAGES

Mitch is keen to build a ...

Nest egg for the kids

Q We are trying to save for our two children, aged $2^1/_2$ years and nine months. We plan on allowing them to use the money once they are over 18, for either university fees or a home deposit. So far we have $7000 in Medibank Private shares in my wife's name and $10,000 in a high-interest saver account. We are able to contribute $200 a week to the account. Where should we put the money to get the best return?

A It's great that you're planning ahead for your children. Putting aside a little bit of money on a regular basis can add up to a substantial tally over 18 years. That said, it can be problematic saving in the name of your children directly. Children don't pay any tax on the first $416 of "unearned" income but the tax rate can be as high as 68% beyond that amount. As such, it's not really practical to save in their names directly in most cases.

You will find that you can hold many investments such as shares and funds in your name as trustee for your children. At 18 you can transfer this to them with no capital gains tax as the kids were always the "beneficial owners". See *The Challenge* on page 76 for more on buying shares for kids.

Part of the benefit of saving for the kids is getting them interested in money and building good habits, so I do like investments held in the kids' names with you as trustee. You could consider an investment, such as a managed fund or an ETF, with an automatic direct debit of, say, $100 a month for each child.

Personally, my wife and I bought well-known Australian shares "as trustee" for our three children. Over time the investments did well and the kids did get interested as they got older. Blue-chip shares such as those of the banks, Woolworths, Wesfarmers (the owner of Coles) and BHP Billiton really made the money grow over a couple of decades.

Dan's sad loss leaves him with a ...

Big responsibility as guardian

Q I'm a subscriber to *Money* and I read it with a passion.

Ask Paul is one of my favourite sections, as you give sound advice and solutions for individual money problems. Now it's my turn, I guess.

My sister passed away two years ago and left a substantial amount of money from her superannuation for her son. I am very grateful for that. My mother and I are now his legal guardians. We've all agreed as a family that we should invest a portion of his money in a property rather than leaving it in the bank earning little interest until he is 18.

After all the fees, he will be getting, ball park, about $450,000, of which half cannot be touched until he turns 18. As guardians, we have access to the other half for his education and maintenance.

My question is, could you advise us on where would be a good place to leave all that money to get the best results in terms of growth for the next 13 years? Would it be best to keep it one basket or a property? My sister has left him a good amount of her savings, which I've left in a Bankwest account. She has left us some money too (god bless her soul).

Thoughts and advice? Keep up the good work! You are a god when it comes to the money department.

A Hi Dan, you are very kind and I am pleased to offer my thoughts. I'm sorry to hear of the loss of your sister. No doubt it's a difficult period for the whole family but I'm sure she would be happy to know that she's been able to leave money to help her son and family.

Before you make any decisions, if the money is still in superannuation while you decide what to do with it, leave it there. As the beneficiary is a child, he would be able to receive an income stream from the super and pay very little tax up to an income of about $49,000 a year. The good news is that even if the money is now outside super, he still won't attract the punitive tax rates that normally apply to the unearned income of minors, but would instead be eligible to normal adult tax rates on the investment earnings.

You say half cannot be touched until he turns 18. I presume this means it can't be spent but, if it can be invested, I have no problem with the idea of buying a property with this, and I would think some of the other half as well. The rent would be useful income for schooling and so on. I do share your view that leaving it in the bank for the next 13 years is a poor plan.

So once you have worked out what funds are needed for education, with a 13-year view, directing that to property or quality shares makes sense to me.

As guardians you are in a very responsible position but with some research a decision to buy a well-located property or shares should put your nephew in a solid position as a young adult. I know your sister would be very appreciative of your care and concern for her son, both emotionally and financially.

Salma would be wise to keep …

Liquid assets as a buffer

Q I am a 51-year-old woman working on a contract as a university academic. There is no guarantee the contract will be renewed next year. My salary is just above $100,000 (some sacrificed to super). I have $210,000 in super (more shares, less cash), $95,000 in a Commonwealth Bank GoalSaver earning 3.05% and $200,000 (mostly in shares but $16,000 is in a government bond). I am debt free, having paid off my home, worth about $580,000. My 15-year-old is in public school and will attend university after two years.

Being uncertain of my future employment, would you suggest I hold on to the cash in the CBA account and continue paying tax on the interest or use some cash to further invest in shares or elsewhere? Considering the falling sharemarket, I may have to sell at a loss if faced with unemployment.

A Looking at your financial position, you own your home outright, have $210,000 in super, almost $300,000 in cash and shares as well as your work contract. You are in good financial shape overall and if your contact doesn't end up being renewed you have quite a substantial savings buffer to tide you over until you find another job.

While I can understand that you are concerned about job security, it's important that you focus on what's under your control. As such, focus on setting financial goals, budgeting and saving, and keep an eye on the market for new jobs for next year in case your contract isn't renewed.

As I mentioned, the good news is that you have quite a substantial financial buffer if you need to spend some time looking for a new role. I think it's smart to keep this buffer in liquid assets such as cash and shares until you get some clarity on your future working situation.

That said, if you were to start a permanent role in years to come and felt more comfortable in your job, it might be time to start thinking about building up your superannuation balance.

All in all, I think you're smart to keep a good chunk of your savings in liquid investments while you await more clarity on your employment situation. You may be paying a little bit of tax on the interest but having the flexibility of ready access to your savings is a valuable option.

For Clifford, offset has a …

Double benefit

GETTY IMAGES

Q I'm 33 and my wife is 32. I earn $90,000 a year and my wife earns $35,000, having taken time off and reduced hours to look after our two children. We have $40,000 in cash, $80,000 in shares and $130,000 in super. We owe $160,000 on our unit, worth $250,000. We hope to purchase a bigger place in the next 12-18 months and hold onto our unit as a rental property. Is it a good strategy to refinance our current loan and put the majority of the equity we've built into the new property? Are there any other strategies to consider that will enable us to continue to build wealth?

A With equity in a property, $120,000 in cash and shares and $130,000 in super, you're in quite a good position for a couple in your early 30s. While it's clear that interest on your existing home loan isn't tax deductible, it's possible it would be if this unit were to become an investment property.

If you were to move out of your unit today and then rent it out, any ongoing interest costs are likely to become deductible and the loan then is for investment purposes. However, if you were to refinance the loan to a higher amount, any increase in the loan size would not be deductible as the new loan is for the purpose of buying a new property for you to live in. As such, it's not possible to increase the size of the loan to increase deductibility in the manner you've described.

What can sometimes work well in these situations is the use of an offset account. Many banks will allow you to create an offset account against your current loan. Any money you put in the offset will reduce the amount of interest payable, and you have immediate access to you savings. For example, if you had an offset account against your mortgage, you could put your $40,000 savings in this account, the bank would then only charge you interest on the $120,000 outstanding. You're currently paying tax on the interest you're earning on your $40,000 savings. But if you used an offset account, there would be no tax payable as you would be reducing the interest payable to the bank, rather than earning it.

If you buy a second property, you could then empty your offset account and use this money as a deposit. Any interest earned on the full $160,000 would then be deductible.

DO YOU NEED PAUL'S HELP?

Send your questions to:
Paul's Answers, *Money* magazine, GPO Box 4088, Sydney NSW 2001 or money@bauer-media.com.au.
Sorry, but Paul can't personally answer your questions other than in the Q&A column.

WIN

A FREE FINANCIAL PLAN WORTH $5500

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THE DILEMMA

A couple are asset rich but income poor

A thorough analysis of Lance and Judy's goals and objectives was conducted. The pros and cons of overexposure to residential real estate were explained. Many clients like them are faced with the same dilemma, which arises from being asset rich and income poor. To complicate this, Lance has an emotional attachment to his home. He is passionate about gardening but Judy would prefer a low-maintenance townhouse and would rather be in a cafe than in the garden.

They realise that now may be the time to downsize. With interest rates at their lowest level for many years and unemployment relatively low, the propensity of people in the market to buy and the ability of Lance and Judy to maximise their sale price could justify the decision to sell. As they get older, the maintenance of the property is becoming harder. They are keen travellers, which will require additional capital.

John Moran CFP is a director and authorised representative of Apt Wealth Partners Pty Ltd AFSL 436121 ABN 49 159 583 847. John has over 15 years financial planning experience. Visit aptwealth.com.au for details.

Name: Lance and Judy Graham, aged 71 and 70

Income: $5000 a month from allocated pensions and interest income. No age pension qualification due to more assets than the asset test threshold.

Outgoings: All income exhausted from regular living and travel expenses.

What's the problem?

They have 85% of their assets tied up in residential real estate, being primarily their quarter-acre principal residence and a holiday home that receives no rental income. They are worried that the liquid capital producing their pension payments (15% of their assets) will run out and they have conflicting views about reducing their property exposure. The entire family, including their adult children, use the holiday home frequently and they don't want to sell it. They are looking for a solution.

Three-step strategy to provide funds for the future

1 RELEASE CAPITAL BY SELLING THE FAMILY HOME

After detailed discussion, our couple reached a compromise: Lance could satisfy his gardening passion at the holiday house, which has a substantial garden. They realised they would spend most of their time at the holiday home anyway but still wanted a residence close to family and friends. Downsizing would potentially release surplus capital to complement their existing funds. They also decided that when the holiday home is not required, they would rent it out. In time they would sell their home and buy a townhouse. If the principle residence sells first, they could live in the holiday home until a new residence is found. Another option would be to rent for the short term. If they found a townhouse and their home hadn't sold, they could consider bridging finance. However, this is more risky.

2 INVEST WISELY TO MINIMISE TAX AND RISK

Lance and Judy are not working and could not make a contribution to super from the sale of their residence, so an assessment of likely rental income from the holiday house and interest from bank accounts needs to be undertaken to work out the best structure for the surplus capital, noting that the holiday house is in Judy's name. Their allocated pension income is not taxable. If the rental income (in Judy's name) is substantial, it would be prudent to invest it in Lance's name and ensure a cash buffer for emergencies, holidays and other capital expenses. Investments would need to complement their allocated pension asset allocation and risk profile. Also, consideration should be given to future capital gains tax implications and the best use of tax-effective dividends.

3 UPDATE WILLS TO AVOID CONFLICT

Lance and Judy also need to consider their estate planning. They have an adult son and daughter and their wills do not cater for how the holiday home is to be dealt with. Previous discussions have revealed that both children would like to keep this property in the event of their parents' deaths. But what if one of them wanted to sell? And what should be the mechanism to sell if one of the children needed the capital? Should there be an option for the other sibling to buy? Also, does their estate planning strategy protect assets that their children will inherit in the future from creditors or family law issues? A joint meeting with Lance and Judy, a solicitor and planner should be conducted where instructions can be taken for their wills to address the issues highlighted.

How should I prepare for retirement?

I am 49, earning $120,000; my wife is 55 and works part time, earning about $30,000, 50% of which is salary sacrificed. Our $600,000 property is fully owned. However, we have just redrawn $32,000 for a new car. This loan is fully offset and serviced from my wife's salary sacrifice.

We have combined super of $596,000 via three policies. We each contribute a voluntary 10%.

In managed funds, listed investment companies and shares we have $282,000. I have a margin loan of $250,000 drawn to $43,000 (not making any repayments). Including the offset account we have $102,000 in savings

My focus has always been super for our retirement but I am wondering whether I should be considering purchasing an investment property, which we could convert to our owner-occupied home in, say, 10 years, after being repaid. Or should I just ramp up the savings into super. I am employed in the financial industry so should I be considering a self-managed fund? Given my wife's age, I'd like to maximise the transition to retirement benefits.

Paul

PAUL'S VERDICT: MAP OUT A LIFE PLAN THEN WORK BACKWARDS

It's a no-brainer to be paying 15% tax by salary sacrificing, rather than 39%

You have given me plenty of detail, which is really helpful. But what I think is critical is the big picture. First you talk about super for your retirement. This is a key issue for all of us. I turned 60 recently and the two fundamental issues for Vicki and me are our life plan and how we fund it. We think it will be best for us if I work around half-time up to at least 65. The idea of working 20 hours a week every week would drive me nuts so I would prefer to work fairly solidly for about eight months of the year and have four months off. This also suits Vicki as we can travel together.

With this big-picture plan we can then work backwards. We have a budget to live that life. This then leads into the assets that fund our lifestyle and also, of course, the income I generate from work. This income will greatly extend the life of our assets as our drawdown is lower while I am working.

So I would really like you to have a clear life plan for retirement.

Then there's the possible purchase of an investment property, which would become your home in a decade. That causes me to think that retirement to that property when you are 59, and your wife 65, is on your mind. So it seems to me that another 10 years of work is likely. This makes sense. Your asset base is around $1.5 million, including your house but deducting your car and margin loans. Clearly you are saving on a regular basis.

If we move to retirement assets, then that is less your home, so we are looking at $800,000. Your life expectancy is about 30 years and your wife's around 28, so close enough to three decades. The trick now is to maximise your savings capacity for the next decade. Your wife could certainly do a transition to retirement (TTR) pension from her super. I'd have a chat to her fund about this but I am not overly excited about it. On her salary of $30,000 she pays no tax up to $18,200. She then pays 19%, plus the Medicare levy of 2%, up to $37,000.

It is worth putting her salary above $18,000 into super. At 15% tax it gives her an advantage of a few percent. But where it is really worth making contributions is on your salary. From $80,000, the tax rate is 37% plus Medicare. For you to be maxing out deductible contribution via salary sacrifice is a no-brainer. I'd like you to pay 15% tax, not 39%.

An SMSF is a good thought. With $596,000 you have enough to justify the fees and charges. If you were going to use the fund to gear into a good investment property, it makes sense. But don't forget these days big super funds give members excellent choice, often with incredibly low fees. I'd check this out before leaping into an SMSF.

An investment property is interesting. If the idea is that you buy something today that you'd love to live in later, I am supportive. But only if the property is in a growth location. If it is a quiet beach house, you may not get decent capital growth.

You are in a great position. My advice is to grab a bottle of red and have a long chat with your wife about your life plans. Once you have them mapped out, money planning becomes a lot easier.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

SIMON CASSON

PROPERTY BUYER EXPO

Home Buyers | Investors | Property Finance

GIVE YOURSELF THE ESSENTIAL ADVANTAGE FOR TODAY'S PROPERTY BUYERS: UP-TO-THE-MINUTE EXPERT KNOWLEDGE

The Property Buyer Expo 2015 is the only event of its kind in Sydney offering home buyers and property investors an educational forum to gather sound investment advice from Australian property professionals.

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FACT FILE
Peak tourist season is July and August, as well as Christmas for its markets. Best to travel in spring and autumn to avoid the high prices and the masses of tourists.

TRAVEL

Destination: Salzburg

Five things to do

Musical history ... Mozart's birthplace in Getreidegasse.

1. *Sound of Music* tour: This four-hour coach tour is great fun, stopping at recognisable locations from the beloved 1965 film, which celebrates its 50th anniversary this year. Sing your favourite *Sound of Music* songs in the film settings, although the gazebo used for *Sixteen Going On Seventeen* is closed because too many octogenarians injured themselves jumping up and down on the seats. Panorama runs the "Original *Sound of Music* tour". Cost 40 euro ($64).

2. Mozart's birth house: There are two Mozart houses in Salzburg but my Airbnb host, Gabriele, recommended this original home where the great composer was born in 1756. Check out Mozart's childhood violin, the clavichord on which he composed several pieces, including *The Magic Flute* opera, and the famous portrait painted two years before his death. 10 euro.

3. Hohensalzburg Castle: Explore one of the world's largest medieval castles on Festungsberg Hill. Take the funicular to the top for majestic views of the medieval and baroque buildings of Salzburg, the Eastern Alps and the Salzach River. 11.30 euro includes funicular.

4. Mondsee: Take a bus to this chocolate-box town on the side of the lake with the same name to see the medieval, cloistered Mondsee Abbey, which was used for the wedding scene in *The Sound of Music*. 7 euro.

5. St Peter's cemetery: Don't miss one of the world's oldest and most beautiful cemeteries as you exit the castle's funicular. You may remember it as the hiding place of the von Trapp family in *The Sound of Music*. It has catacombs from the early Christian period. Free. SUSAN HELY

WINE SPOTLIGHT

2014 Frankland Estate 'Rocky Gully' Riesling $18

Rocky Gully has a pub, a garage and a few inhabitants and is in the Frankland River sub-region of the Great Southern, a very long way from anywhere. Frankland Estate has established an enviable reputation for the quality of its riesling. The 'Isolation Ridge' riesling is available on the wine lists of almost all of Australia's finest restaurants. This second label represents terrific value for money: it has a distinctive toasty aromatics, and lemon and lime juice flavours that are intense and long lasting. The 2014 'Rocky Gully' is clean, crisp and refreshing. Ideal with the light, exuberant tastes of spring.

SPLURGE

2014 Holm Oak 'The Wizard' Pinot Noir $60

A visit to northern Tasmania's Holm Oak may just become your most memorable cellar-door experience – and not just because of the opportunity to meet Pinot d'Pig. Certainly, it's the quintessential family winery where everyone is involved, although winemaker Bec Duffy naturally gets most of the limelight. 'The Wizard' is their flagship red with an additional intensity and depth of flavour that sets it apart: red cherry, redcurrant and wild bramble flavours, fleshy texture that flows silky smooth through to the finish. There's some restraint and fine tannins that suggest it will age well but it's satisfying now.

PETER FORRESTAL, TWITTER.COM/QUAFFONLINE

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DRIVING PASSION

Smooth operators

Diesel SUVs have plenty of pulling power

Leaps in engine quietness and refinement have made diesel-burning passenger cars far more appealing and popular, and one of the most logical homes for the oil-burner is the compact SUV. These high-rise wagons are heavier than hatches and sedans and don't slip through the air with the same aerodynamic efficiency. So a turbo-diesel engine's reserves of pulling power at low engine speeds means it works brilliantly in this role, for both urban and out-of-town driving duties.

There are a lot more diesel cars on offer from a far bigger variety of makers than there used to be, especially in the SUV category. Where European brands once dominated, today oil-burners from Japan and Korea are commonplace. Hyundai has re-established the Tucson badge for its new compact SUV, which replaces the iX35, and brings a potent diesel version.

Mazda's CX-5, meanwhile, is the class bestseller and has one of the best diesel drivetrains available in any segment of car. Subaru reliability and longevity go hand in glove with the diesel engine, which is typically durable, efficient and laidback in its performance – the oil-burning Forester is well worth a look. JAMES WHITBOURN

$27,990-$45,490

Hyundai Tucson

The next-generation Hyundai wagon (pictured) marks a big step forward compared with the outgoing ix35, in aesthetics, driving ability and overall appeal. **Pros:** Great looking; better blend of handling and comfort than the model it replaces; potent engine; well priced and well equipped. **Cons:** Interior not as stylish as the exterior; still not as sharp or responsive to steer as the CX-5. **hyundai.com.au**

$27,190-$50,610

Mazda CX-5

The most popular pick in the segment drives sportily, looks great and works best with the 2.2-litre turbo diesel engine. It has less interior and luggage space than some of its rivals, though it's still roomy enough for most families. **Pros:** Attractive styling; terrific engine and automatic gearbox deliver smooth, broad power. **Cons:** A bit more tyre and suspension noise than its rivals and smaller cargo area. **mazda.com.au**

$29,990-$47,990

Subaru Forester

Many buyers turn to Subaru's evergreen soft-roader because they've owned a previous model and it's given good service **Pros:** Enviable reliability reputation; permanent 4WD means the Forester will go further off road than rivals; well equipped; excellent vision. **Cons:** Diesel not as responsive or as potent as its rivals; engine not quite as smooth as those in Hyundai and Mazda; conservative styling. **subaru.com.au**

EXTRAVAGANCE

Shades of summer

Protect yourself from the sun with these stylish Australian-made beach umbrellas.

***Where to buy:* basilbangs.com *How much:* $259**

WEBFIND

DOGGYBAGDELIVERY.COM.AU

A home-delivered, portion-controlled health food plan for dogs. All meals are made from fresh meat, vegetables and grains and can be customised to suit your dog's size, breed and medical condition.

Steph Nash

SMART TECH

Work stations

Safety and comfort are top priorities

Do you ever get a sore neck or back while using your computer? If so, there's a fair chance you haven't set up your personal workspace properly. Lots of us spend several hours a day slumped in a chair, eyes glued to a PC, which isn't ideal for our bodies. But while we might not be able to change the circumstances of 9-to-5 work (sigh!), we can at least modify our environment to make sure it's healthy, safe and comfortable.

The most common mistake people make is probably also the easiest to fix: the angle at which we stare at our computer screen. Your eyes should be level with the monitor, so your neck doesn't need to incline towards it. You can easily raise desktop displays by repurposing an old Yellow Pages or two, but for laptops you might want to consider a stand.

In addition you should sit up straight, with your knees at a right angle and forearms horizontal with the desk. Think of the Tetris piece with the kink in the middle (that's you). PETER DOCKRILL

What is it? Ikea Bräda
How much? $8.99
Pros: The Bräda is a simple plastic stand designed to raise your notebook's display up to a better height on your desk. It's got a rubber underside to prevent slipping and supports laptops up to 17 inches. For tablet users, Ikea also has a great little stand called the Isberget for just $1.99, although our favourite tablet stand is the Nest by Bluelounge.
Cons: A $9 piece of plastic isn't a magic bullet for ergonomic problems, but it's a start.
ikea.com/au

What is it? Rain Design mStand
How much? $79.95
Pros: Offering a better height and substantially more style, the slick-looking mStand (pictured) certainly packs the wow factor. It's designed with MacBooks in mind but will hold any laptop. One benefit of the elevated design is it frees up desk space and ostensibly cools your notebook. The quoted price is from the Apple Store but you may be able to do better online.
Cons: Not easily portable, and the angle isn't adjustable.
raindesigninc.com

What is it? Varidesk
How much? From $385
Pros: Taking things a step further (literally), standing desks have become popular in recent years thanks to research showing that prolonged sitting is no good for us. Varidesk offers a range of configurable desks and workstations that enable you to alternate between sitting down and standing up during the day.
Cons: Expensive, and your body may take time to adapt. But it also could thank you in the long run.
au.varidesk.com

GIVE IT UP

Australian Women's Health Diary 2016

What is it: The diary is a yearly initiative of the Breast Cancer Institute of Australia. The beautifully floral 2016 edition, which costs $16.95, is packed with health and wellbeing tips to help you look and feel great. Your new year's resolutions will be supported by healthy recipes, exercise tips and medical advice. Get organised for 2016 and help support breast cancer research.
Where your money goes: Over the past 17 years, the diary has raised a total of $11.1 million for the Breast Cancer Institute. All proceeds go directly towards research into breast cancer treatment and prevention. Last year's diary alone raised $1.1 million, and the institute hopes to beat this record in 2016.
How to donate: The diary will be available from October until January from newsagents, Commonwealth Bank branches, Woolworths supermarkets and Avon representatives. You can also order it online at bcia.org.au. STEPH NASH

COMPARE THE PAIR

Pod-based coffee machines

Get your morning fix at the press of a button

What is it? Expressi multi-beverage capsule machine + milk frother
How much? $107.98
Pod Cost: 37c each
Info: Aldi's budget style coffee machine is Canstar rated and comes with two years' warranty.
aldi.com.au

What is it? Breville Nespresso Maestria with steamwand
How much? $749
Pod cost: 68c - 89c
Info: Nespresso's latest machine features an in-built steam wand for milk frothing.
breville.com.au

STEPH NASH

Build wealth outside super

STORY
SUSAN HELY

Along with paying off the family home, super has been a cornerstone of retirement planning. But governments keep changing the rules, so it's increasingly important to have an alternative nest egg. *Money* asked the experts for savings strategies for four age groups: the 30s, 40s, 50s and 60s.

Australians have always worried about the government changing the rules for retirement savings but lately their anxiety has grown more intense. In fact, it is the No. 1 concern for retirees and pre-retirees, reports a survey of 1200 superannuants by State Street Global Advisors and Rice Warner. It found 63% of informed investors and 58% of high-net-worth investors are worried about potential government changes to super.

That isn't surprising, given the recent moves by the federal government to cut back on eligibility for the age pension, and 326,000 people will receive a reduced part-pension or none at all. And it has doubled the super tax rate for high-income earners. This is on top of raising the pension age to 67 and the preservation age to 60, depending on your date of birth. Health benefits have been reduced for many seniors as the government tightened the eligibility for the Commonwealth seniors health card.

There are certainly more changes to come, says Pauline Vamos, the chief executive of the Association of Superannuation Funds of Australia. She says super rules will be adjusted so that it has to do more "heavy lifting". Most likely there will be a tax on high balances in super and mandated income streams with limits on lump sums.

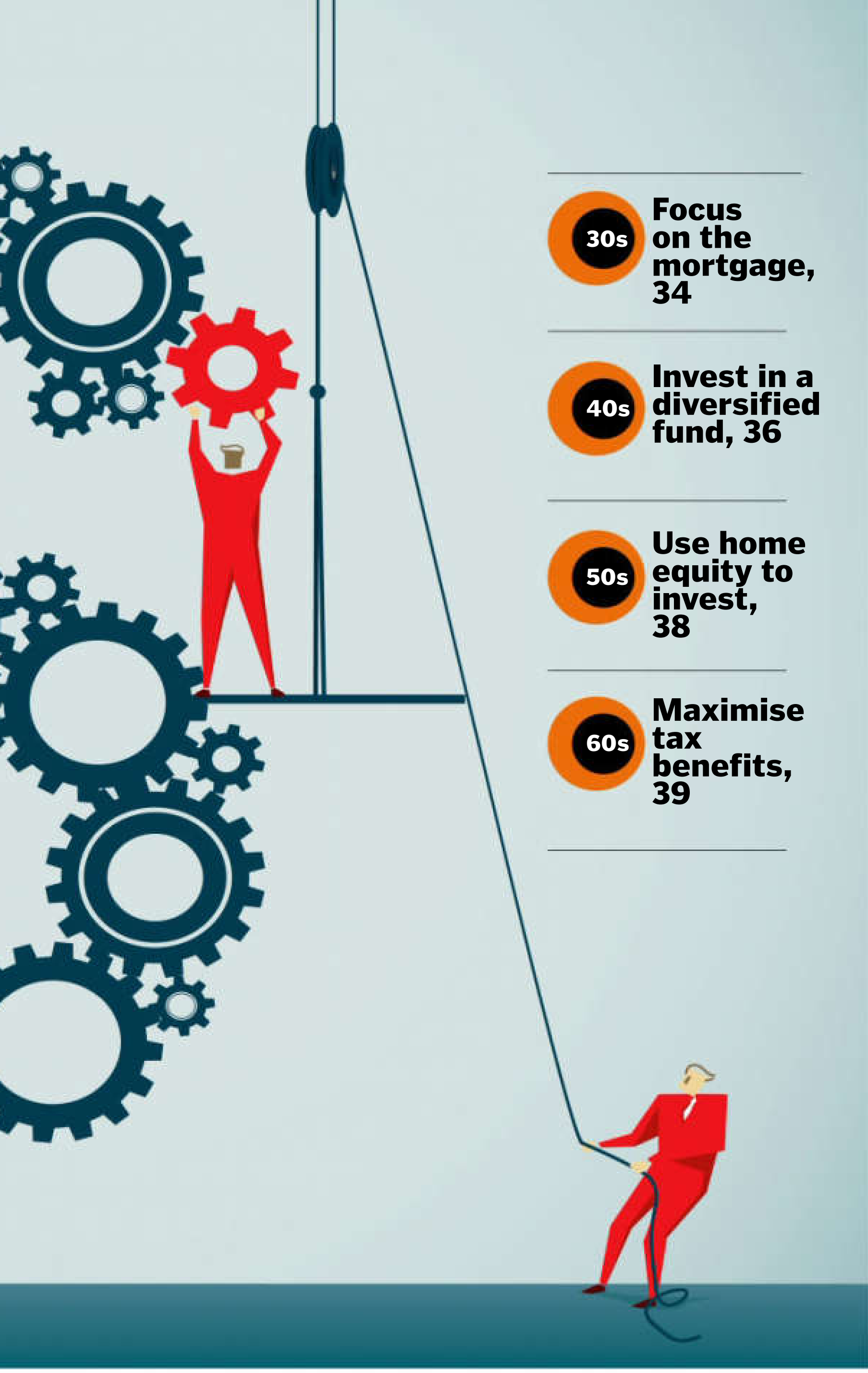
The Labor Party has flagged that, if it wins government, anyone earning more than $75,000 a year from their super fund will pay 15% tax. This income roughly equates to the dividends from a $1.5 million super balance. Also Labor will reduce the high-income threshold that attracts a 30% tax rate from the current $300,000 a year to $250,000.

Greater choice and control

Almost every week a report recommends changes to the super system that will affect people's retirement budgets. Vamos says the changes shouldn't be about short-term political needs.

Super has been one of two assets that Australians have focused on throughout their working lives. The other is the family home, because once the mortgage is paid off you can live rent free in old age.

With all this uncertainty, there is no better time to broaden your approach to build wealth outside super. Financial planners have been advising investors to do this for some time. One of the main



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benefits is that you can access it when you need it – not when the government dictates. As well as minimising the legislative risk, it can help fund the unexpected, such as an early redundancy or illness that keeps you out of the workforce or at a lower level of earning before you reach your preservation age or qualify for an age pension.

And you may not want to keep working until 65 or 70. Money outside super gives you more choices and more control over when you retire. While Australians are living longer, they are not necessarily working longer. The Australian Bureau of Statistics reports the average retirement age for men is 63 and for women 60. It is important to have savings so that you can afford to retire from a job that is bad for your health or wellbeing.

A downside is that holding your investments outside super can mean you pay more tax than you would if you held them in super. If you own shares, cash, term deposits or positively geared property, you are taxed at your marginal rate, which can be up to 47¢ (plus the Medicare levy). In an era of low interest rates, your gains can be wiped out by tax and inflation.

There are tax-effective investment strategies for building wealth outside super that include borrowing, holding assets in the lower-income earner's name and timing the selling of assets to minimise capital gains.

"When it comes to building wealth, you need to think about what you are building wealth for," says Vamos. Besides super, Australians typically save to pay for holidays or school fees.

Benefit of an early start

While recognising that super is the most tax-efficient and consistent vehicle for building a retirement nest egg, *Money* has asked four experienced independent financial planners for tips on boosting long-term wealth for four age groups: Claire Mackay, from Quantum Financial, explains the challenges and strategies for 30-year-olds; Lynda Cross, from Mercer Financial Advice, gives advice for 40-year-olds; Joanna McCreery, director of Majella Wealth Advisers, looks at strategies for 50-year-olds; and Chris Hogan, from HLB Mann Judd, covers what people in their 60s can do.

Certainly, the earlier you begin the more you benefit from the power of compound interest. Borrowing to invest can help accelerate your wealth if you invest well for the long term, says McCreery. "Interest on the loan also helps reduce taxable income," she says.

You don't need to buy property; you can invest a small amount in a portfolio of shares. Target shares with high franking credits on their dividends and then hold them for the longer term so you aren't hit with capital gains tax from frequent trading.

If you don't borrow, McCreery recommends investing in the lower-income earner's name. If possible, sell when you are retired or semi-retired so that you pay less capital gains tax.

There are plenty of factors to consider with all these investments. Cross says family trusts, for example, have benefits such as paying small amounts of income to children tax free, but for younger couples with fewer assets the cost of setting up and running them can outweigh the tax benefits.

With the current low interest rates, many people are putting spare money into the mortgage until they have paid off at least 50%. This can take them into their middle 40s or early 50s.

Mackay is a big fan of paying off the mortgage as soon possible as it reduces non-deductible interest payments and the equity can be used to redraw funds needed in an emergency.

THE 30s

Anna and Jasper are in a great position to start building their family's wealth. First they should take a snapshot of their finances, develop sound financial goals and create a strategic financial plan to achieve their goals. With a combined income of $105,000 ($86,000 after tax), Anna and Jasper need to work to a budget to ensure they save more effectively. Savings, not earnings, will drive their wealth creation.

To protect their family's security, especially that of baby Charlotte, they should consider taking out appropriate insurance.

Anna and Jasper should also make some important decisions now about their superannuation. If they're not in employer super funds that provide them with special benefits, they should consider low-cost industry funds. Lower fees will mean their super grows faster. If either of them have more than one super fund, they should consolidate them and choose growth investment options that suit their 40-year retirement time frame. At their ages, time is on their side when it comes to building their retirement nest egg.

OUR COUPLE
Anna and Jasper earn around $105,000 ($40,000 and $65,000 respectively). They have a baby daughter, Charlotte. They have around $37,000 in super and a $450,000 mortgage on a house worth $550,000.

Pay down the mortgage

I am a big fan of those in their 30s paying off their mortgage with almost religious-like zeal. In the short term, a large part of Anna and Jasper's savings should be applied against their mortgage by holding all their spare cash in an offset account attached to the mortgage account. This strategy will reduce their interest payments – which are not tax deductible for their primary residence – and means they pay off their mortgage faster and allows them to redraw funds in the case of an emergency.

Much of what Anna and Jasper should do depends on their personal circumstances. If they intend to send Charlotte to a private school, it will be a big expense for several years that needs to be included in their long-term planning. So too would having another child. One way to incorporate such plans into their financial strategy is to adjust their budget today as if they already had these expenses – at least in part – and put those funds into the offset account, thus reducing their mortgage debt even faster.

While super is a tax-effective way for Anna and Jasper to save for their retirement, the obvious downside for a couple aged 30 is that they won't be able to access it for nearly 40 years. So when the mortgage is under control, they should also start developing a wealth portfolio outside super.

While they are both currently in the same tax bracket, salary increases over time are likely to mean Jasper will fall into a higher tax bracket in the future. If Anna exits paid work for a period, it may be best to invest outside super in Anna's name to reduce tax.

An investment property is another way of investing outside super. Property can be a wonderful asset – you can touch it, feel it and it isn't going anywhere. It provides reliable rent and recent decades have seen great capital growth. However, as there have been many warnings of residential property bubbles from

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many sources, I struggle to see how price growth can continue to be strong. If Anna and Jasper lack property investing experience, it may be risky for them to enter this market, at least for a time.

Anna and Jasper could also consider contributing to super via salary sacrifice. Certainly, when they've reduced the mortgage debt by 50%, they should revisit how they allocate their funds. When the mortgage debt has been reduced by 75%, they should definitely consider making additional salary sacrifice contributions to their super.

They could start with a modest salary sacrifice of $500 each a year and plan to increase it each year. This can save tax – for Jasper particularly – and will also develop good retirement savings habits. Every little bit helps.

If they were to have another child at age 35 and Anna then took five years out from paid employment, we estimate her individual super balance at retirement would be 15% lower and their combined super savings 6% lower.

Will they have enough?

Based on their current super balances and employer super guarantee payments (currently 9.5% rising to 12% in 2025-26) we estimate Anna and Jasper will have combined super of $2.2 million by 2052, when they turn 67. In today's dollars that is just $754,000. For a comfortable lifestyle in retirement (estimated to cost $58,784 a year by the Association of Superannuation Funds of Australia) it could last them 16 years until age 84. They need to contribute additional amounts to their super through their mid-40s and 50s.

The key risks for Anna and Jasper in their 30s are unforeseen events that would knock them off course financially – unemployment, serious illness or death. Insurance is crucial. While their super will be subject to market risk, over 40 years they can expect significant capital growth. Another danger is not taking the time to plan their futures. The positive effect of compounding means not taking action about their finances today can have a large negative impact on their retirement savings.

CLAIRE MACKAY is principal and head of advice at Quantum Financial, where she specialises in SMSFs and financial planning. quantumfinancial.com.au

TOP TIPS

- Saving is not investing. Money you have in low-risk cash that you need to use in the coming years is not investing. You must keep this safe and it will earn little because you need to use it soon. Money you don't need to use soon that you seek to take more risk with (and expect higher return from) can be invested. If invested wisely, this will grow and help you reach your financial goals.
- Eggs and baskets. You know the drill – don't put all your eggs in the one basket. In financial terms, diversify your investments across the asset classes (fixed income, domestic shares, international shares, property).
- Keep your eye on investing fees. A diversified, low-cost portfolio could easily be constructed using a number of exchange traded funds (ETFs). They are liquid, transparent and are traded on the ASX. If you already have an online brokerage account, then you can trade ETFs.
- Good investing habits. Regular additional contributions can be an effective way to build your family's wealth. Start small with the goal of increasing the contributions.
- Switch to autopilot. Automating the savings process with a monthly direct debit ensures you will follow your agreed financial plan and also helps you keep to your planned budget.
- No tip for the tax man. If you invest outside super, invest in the name of the person in the lower tax bracket to reduce your tax burden. Consider what may happen in the future: one partner may be out of paid work and will pay significantly less tax on income and capital gains during this time. If you're on similar incomes, hold investments jointly. For a more complex financial situation, a trust or corporate structure may be appropriate – but get advice first.
- Seek trusted advice. If you need professional financial advice, seek out a qualified certified financial planner. There's no need to settle for a lower professional financial planning standard. If you choose to do it yourself, be mindful that not everyone needs a financial planner, but everyone needs a financial plan.

Emily and Steve are starting to think seriously about retirement. But it is still a long way off and they have a number of goals before that: they plan to send their two children to private high schools and there will be family holidays. So there will be significant costs that can't be met from super.

Having upsized the family home in the past few years, they now have a $500,000 mortgage. They're aiming to repay the loan within the next 25 years but they're determined to pay down all they can as soon as they can while the cash rate is so low. Emily and Steve know that the faster they repay the mortgage, the less interest they will pay in the long term.

Emily and Steve visit their financial adviser to discuss a three-pronged approach:

Invest in a diversified fund

Sending the children to a private high school in about six years will increase the family's cost of living. While Emily and Steve have chosen a modest private school, they realise that they probably can't just absorb the cost within their likely budget and want to save in advance.

After receiving advice from their financial adviser, Emily and Steve select a diversified managed fund that invests in a mix of assets including shares, bonds and property.

Due to her lower income, they put the investments in Emily's name. She is likely to pay less additional tax on extra earnings than Steve as they won't take her to a higher tax bracket. She will receive some franking credits on the income from the Australian shares in the portfolio.

They decide they can afford $1000 a month to invest and estimate that this will generate a sufficient supplement to their income when the kids go to high school.

They considered creating a family trust, as small amounts of its income can be distributed to the children tax free, but opted not to after weighing up the cost of setting it up against the minimal tax benefits.

Reduce mortgage faster

Emily and Steve want to reduce their mortgage to give them greater investment capability and higher returns before they retire. They have worked closely with their mortgage broker and feel they have a good interest rate, at 4.5%pa.

Their financial adviser explains that every extra dollar of mortgage repayment means they get an effective 4.5% tax-free return on that dollar, in the

OUR COUPLE

Emily and Steve are 40-year-olds who earning around $130,000 a year ($40,000 and $90,000 respectively). They have two young children. Their combined super balance is $70,000 and they have a $500,000 mortgage.

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form less mortgage interest charged. Although interest rates are at record lows, this return is only guaranteed until they are notified of an interest rate change.

Money put into the mortgage is not subject to "losses" in the way that money invested in shares can be and the more capital they pay down now, the lower the impact of a rate rise on their future cash flow.

Emily and Steve decide to direct an additional $500 a month to their mortgage repayments. Their financial adviser explains that as the interest costs decrease, they should consider using their additional cash flow to increase their repayments even further. In this way, even a small additional contribution can accelerate the paying off of the mortgage. The adviser's projections demonstrate that, based on this principal, they could reduce the mortgage term by three years.

Maximise tax saving

Directing salary into superannuation instead of taking it as personal income is a well-known way to reduce tax and boost retirement savings. By arranging to put more of your salary than the 9.5% super guarantee (SG) into super through your employer, you can reduce the tax on that component of income to 15%. The strategy is more beneficial the higher your personal tax rate.

How much you can salary sacrifice depends on your age; at 40, the maximum is $30,000 a year, including compulsory SG payments. Steve earns a relatively high income and would benefit by increasing his salary sacrifice within the cap, depending on his cash flow needs.

His compulsory super is $8550 a year, so he could salary sacrifice up to an extra $21,450pa. Steve decides to salary sacrifice $15,000 of his pre-tax income each year. After the 15% tax on super contributions, the strategy will inject an extra $12,750 a year into his savings. But it only costs him $9650 of his annual take-home pay because of the tax saving.

Emily, on her lower income of $40,000pa, can benefit from some salary sacrifice. Her SG payments total $3800pa, so she could sacrifice up to an extra $26,200pa within the cap – but this would eliminate her tax bill entirely.

Once you're below the threshold for paying personal income tax, salary sacrifice will cost you money because you'll pay 15% tax. Emily decides not to salary sacrifice.

Investing in a non-working spouse's name can often mean **a tax-free return on an investment**

LYNDA CROSS heads up online, phone and workplace advice at Mercer Financial Advice and has 18 years' experience in financial services. mercer.com.au

TOP TIPS

- Mortgage repayment is an investment in your future. An additional capital repayment provides a guaranteed, tax-free return equivalent to the interest you were paying on that amount. It can be thought of as a low-risk way of investing and returns can be high when mortgage interest rates are high.
- Consider using a diversified fund to save for private schooling. Be careful with scholarship funds. Investing for the kids' education is a common goal and scholarship funds promise significant tax savings. But always read the terms and conditions. Restrictions on withdrawal and even forfeiture of funds if your child doesn't attend university may be a serious problem with some products.
- Think about the kids. Higher education, weddings and the first major purchases, such as a deposit on a unit or a car, can sometimes require support from parents. If all your money is in super, you might not have the option to do this at the time it's needed. Keep some money invested outside super for such an occasion.
- Superannuation provides a low-tax environment but sometimes you can do better. Super is taxed at 15% and, where possible, invest in options that require less tax to be paid while still providing the same returns. For example, a non-working spouse often pays no tax at all. Investing in their name can often mean a tax-free return on an investment – 15% better than the super tax rate.
- We're living longer and leaving work earlier – our high standards of living mean we need to consider our retirement savings in terms of capital as well as cash flow. After all, their value and the value of their earnings will be eroded by inflation, making it harder to fund a comfortable retirement.
- Maintain access. Super can't be withdrawn until you meet a condition of release. Don't put money in super if you want to spend it earlier than this. Invest in your name to retain access.

THE 50s

Many people begin thinking about their wealth accumulation in earnest once they hit 50. It's often when they are earning more, the mortgage is under control and maybe they also see an end in sight to child-raising costs. Moving to a better work-life balance in the next 10 or 15 years is also often a desire.

To give yourself options in the future, 50 is a good time to plan ahead. Repaying the mortgage is an easy, low-risk way to accumulate wealth. But with interest rates low, you don't need to plough all your excess funds into the mortgage; repaying it by retirement or semi-retirement may be a fast enough schedule for many.

Salary sacrificing to super is a great way to save. With preservation age for someone who is 50 only 10 years away, the decision to increase salary sacrifice may be easier now. Super no longer seems like something you will never be able to use.

For someone like Glen earning $100,000pa, for every $1000 of salary he earns over $80,000 he receives $610 (after tax and Medicare levy) in the bank. Alternatively, he could salary sacrifice $1000 and add $850 after tax to super. In fact, I'd be talking to Glen about salary sacrificing as much as he is allowed to ($35,000 less his 9.5% super guarantee contribution and any payments his employer makes to his super). If he salary sacrificed $25,500pa, he would save a net $6120pa in tax. Because Glen is on a higher marginal rate, it is more tax effective for him than for Narelle to salary sacrifice.

Many current 50-year-olds may find that their super balances are well under what they will need in retirement. One reason is that compulsory super was not introduced until 1992 (when they were 27) and, in the first years, the compulsory payment (the SG) was much lower, only increasing to 9% in 2002.

Today's 50-year-olds also face a challenge that recent retirees didn't, and that is the relatively low concessional contribution cap. Someone who retired five years ago was able to salary sacrifice a significant amount of their salary to super at the end of their working life. But today's concessional contribution cap for 50-year-olds is only $35,000.

So building your super balance earlier is more important now. It's too late to leave it until you're 60. For Glen and Narelle, the SG alone is projected to result in a combined super balance of $1.2 million by age 67. We project that would give them a retirement income of only $42,000pa (in today's dollars) for 30 years, assuming a 6.5%pa return.

But what if you want to move to a more flexible lifestyle before you reach your preservation age? Or what if the government increases your preservation age? Building up some assets outside super as well makes a lot of sense.

After repaying your home loan, saving a monthly amount of your after-tax income is the lowest-risk way to build up assets outside super. It's not particularly tax effective though. Unlike salary sacrifice, you are investing after-tax income. All income and capital gains will also be subject to tax. To minimise this tax, we'd recommend establishing the account in the lower-income partner's name. Investing a portion of the investment in Australian shares will also give franking credits to offset tax.

For people who are relatively risk tolerant and willing to invest for the long term, we would recommend they consider borrowing. Interest on the investment loan is tax deductible, so it's a tax-effective way to invest outside super. For people like Glen and Narelle, with plenty of home equity, the cheapest source of debt will be a home equity loan. Borrowing and investing into a diversified portfolio for the long term would be a good strategy to consider. By reinvesting the income, you continually add to your investment.

An alternative strategy for our couple is to use home equity to make a deposit on an investment property and borrow the remainder. This would most likely result in a larger loan and it is therefore a bigger financial commitment, but the value of the investment is more stable than for shares. As for shares, property investment must be made with caution and research, particularly given the recent strong increase in property prices in many places.

OUR COUPLE

Fifty-year-olds Glen and Narelle earn around $145,000 ($45,000 and $100,000 respectively). They have two teenage children. Their super balance is around $200,000.

JOANNA McCREERY is a director of boutique financial advice firm Majella Wealth Advisers. majellawealth.com.au

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Some words of caution:

- If your plan is to use the equity in your investment within 10 years, investing in property (or a 100% share portfolio) may not be right for you as it's a relatively short time horizon to access the full potential growth of these investments.
- Investing in any asset is most risky if you become a forced seller. Investors need to ensure they can withstand negative events like asset price falls or, in the case of property, a period of vacancy.

For many people in their 50s – particularly those who have their mortgage under control and can contribute the maximum to super and still have the capacity to save – building up an investment outside super offers more flexibility in terms of access, so can help you achieve goals before you reach your preservation age.

TOP TIPS

- Borrowing to invest can help accelerate wealth creation if you invest well for the long term. Interest on the loan will also reduce your taxable income.
- If you don't want a large investment loan, then consider investing in a portfolio of shares.
- If the investment is not made with borrowed funds, invest in the lower-income partner's name. Also set up a monthly savings plan so that you are adding regularly to your investment.
- To minimise taxable income, invest in shares with a buy-and-hold philosophy. Frequent buying and selling will increase your capital gains tax. Holding an asset for more than a year also attracts half the tax rate on the capital gain.
- Invest part of your portfolio in shares offering high franking credits on their dividends.
- If you are investing in shares or property, and especially if you are borrowing to invest, make sure you plan to, and are able to, invest for the long term (10-plus years).
- Invest gradually into sharemarkets to minimise the chance you are doing so at the wrong time.
- Investing in property involves high transaction costs and, if you borrow most of the cost of the property, it will probably involve you losing money on the investment for a long time (rent and maintenance costs are likely to be less than the interest costs). To ensure the investment is worth making, you need to be confident in the potential for the property's price to rise in the long term.
- Make sure you won't be forced to sell when share or property prices are down. This means making sure you have the financial capacity and the risk appetite to remain invested during the tough times.
- If possible, plan to sell when you are retired or semi-retired so that you pay a lower rate of capital gains tax.

THE 60s

OUR COUPLE

Sixty-year-olds Jackie and Trevor have no mortgage and their children are less dependent now that they are at university, although still living at home. Both work part time and together earn around $100,000, down from $135,000 a few years ago. They have about $550,000 in a self-managed super fund.

The 60s age group is where people become established for retirement. The aim is to eliminate debts and build as much wealth as possible, tax effectively and in the right investment structures.

Jackie and Trevor should focus on a two-pronged approach: allocating funds to super and building wealth outside super in a personal investment portfolio. This is possible with the mortgage paid off and the children less dependent.

It should be possible for Jackie and Trevor to limit tax on their incomes to 19% (plus Medicare). To do so they each need a taxable income that is at or below $37,000 a year. To achieve this they can make concessional contributions to super of up to $35,000 each a year. They shouldn't blindly contribute the maximum. The aim is to keep taxable income between $18,201 and $37,000. It is important not to bring taxable income below $18,200 as this is the tax-free threshold.

Concessional contributions are taxed at 15% as they enter super, compared with 32.5% (plus the Medicare levy) that applies if the income is received personally for amounts between $37,001 and $80,000.

Jackie's concessional contributions will need to be arranged as salary sacrifice with her employer while Trevor may have to make his own personal concessional contributions if he is earning business income from consulting.

Jackie and Trevor should consider commencing transition to retirement pensions (TTRPs) from their super. By doing so, the earnings on their super pension accounts will become tax free and the amounts they draw will also be tax free.

The amount that 60-year-olds need to draw from their TTRPs is between 4% and 10% a year. This equates to between $22,000 and $55,000 on a $550,000 super balance. Jackie and Trevor should aim to draw as close to the minimum $22,000 as possible to maximise their super benefits.

Jackie and Trevor have built a sizeable super balance. If only super guarantee (SG) contributions were made in the future, it could grow to about $980,000 at age 67 and $1.2 million at 70 (assuming a 7%pa earnings rate). The additional contributions suggested above will further improve this balance.

A main worry for people in their 60s is building enough wealth to live off in retirement. Those who are 60 now have not had the benefit of compulsory super for all their working lives, so they often need to take action in the final years before retirement to build up sufficient wealth. A significant risk during these crucial wealth-building years is that investments don't perform as well as expected.

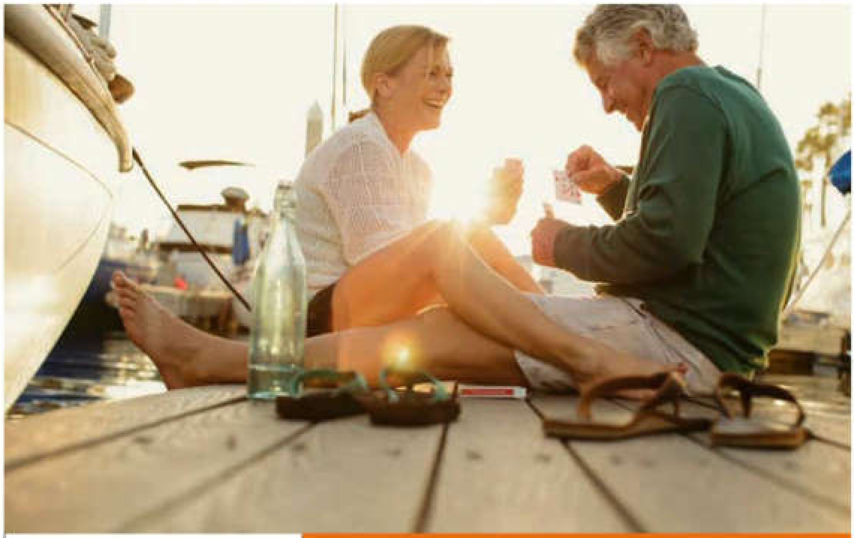
The second prong of Jackie and Trevor's strategy is to build wealth outside super. The amount they can commit will depend on how much cash is available, including the TTRP, after living expenses and super contributions.

This personal wealth is likely to be held in joint names with the income from the portfolio split equally between Jackie and Trevor. Depending on its value, once in retirement they are likely to pay little or no tax on the income from this portfolio.

Some thought could be given to holding the portfolio in the lower-earning spouse's name to ensure taxable income is evenly spread. However, this is likely to be already managed through the concessional contributions described above. Also, in retirement it is preferable to hold a joint portfolio for income-splitting reasons. A family trust could be considered to allow taxable distributions to adult children earning minimal income. However, in this case the tax is already under control and the running costs of a family trust may be prohibitive.

Jackie and Trevor's focus on building wealth outside super will depend on their trust in the system. Super is almost always be the most tax-effective place for retirement savings. With an appropriate investment strategy, super can be well diversified and solve the need for a non-super portfolio. But for peace of mind it can make sense to have wealth outside super, especially if minimum super pension amounts start to exceed the amount required for living expenses and contributions can no longer be made. A non-super portfolio can be a convenient place to invest these surplus funds.

Both the super portfolio and the personal investment portfolio are counted for the government age pension assets and income tests. A home-owning couple can hold assets outside the family home of up to around $1.1 million and receive some age pension and ancillary benefits. Jackie and Trevor should review their asset position before retirement to assess their ability to claim the age pension. Even if they don't qualify from the outset, they may qualify further down the track as they deplete their investment capital. ***M***



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TOP TIPS

- In making the decision to retire, you should consider that your actual retirement age will make a significant difference to your future lifestyle. Each extra year worked has the double effect of adding to retirement assets and reducing the time for which those assets and income will be needed.
- You should consider converting your super accumulation account to a pension account from 60. This is because the earnings on pension accounts are tax free and the pension drawn is tax free for those over 60. Income that is not required can be recontributed into an accumulation account as non-concessional contributions, subject to the limits and the work test for those over 65.
- Have an appropriate allocation between growth assets such as shares and secure assets such as term deposits and cash. Growth assets can provide returns that exceed inflation but can also be a cause for worry in volatile times. Secure assets currently produce low returns but give sleep-at-night comfort.
- You should consider your tolerance for risk as well as the relative attractiveness of shares against term deposits. For example, with interest rates so low and the potential for dividend income relatively higher, it may make sense to tilt a portfolio more towards shares than may otherwise be the case.
- It is important to never need to sell shares in a weak market. To avoid this, retirees should establish a separate pool of secure assets, ideally to cover at least five years of living expenses.
- Budgeting is an important consideration. Ideally you would draw 5% or less of the value of your investment assets each year to preserve capital. With a smaller investment base, it may be necessary to draw a greater percentage. But with proper planning it may still be possible to maintain enough capital for your lifetime.

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MY MONEY

TAX TIPS

How to offset your second income

Liz Russell
Etax.com.au

Thanks to platforms such as Uber, Airbnb, Etsy and eBay, it's now easy to start earning a second income without committing much money or time upfront. Boosting your income with a side gig has tax implications that could see you pay thousands of dollars in tax and leave you out of pocket. The trouble is, as you earn more money in total, the tax office taxes you at a higher rate and you can end up deep in the red at tax time.

To prevent a nasty year-end tax shortfall, put aside money each month so you'll be ready to cover your tax owing. First, estimate how much you'll earn for the year from both jobs. From this you can calculate your tax payable, subtract the tax withheld from your main income, and you'll know how much money to save by year's end. Depending on your initial income, you may need to save 40% or more of your new income. A tax agent can help you make accurate projections and calculations.

Tax deductions can also help you bite back. The key is to claim every cent of eligible expenses (and have proof if the tax office audits you). Save all your work-related expense receipts without fail.

If you're making money from Airbnb don't think that the amount is too small or that you're somehow exempt from declaring the rental income in your tax return. Airbnb and similar rental arrangements are "out there" in the public and the income is easy for the ATO to track.

And remember, renting part of your family home will lead to capital gains tax payable in the future. The rental income will usually outweigh the later effect of CGT, but go into this with eyes open. On the bright side, renting out a room means you can claim expenses and depreciation for the percentage area of your house that is rented for the period when it was rented.

If you just "dabble" with Airbnb, this won't amount to much and you might not find the trouble of record-keeping is even worth it. But if you rent out space more often, you'll benefit from claiming a portion of upkeep and repairs, depreciation on furnishings for the rented space and even part of your bills for power, water, internet and mortgage interest. Just don't get carried away.

New call for super changes

Tapping into home equity and bumping up the preservation age are two of the latest recommendations for overhauling the super system.

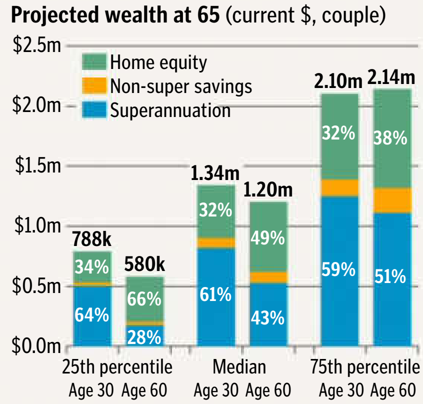
For Richer, For Poorer, by the Actuaries Institute, investigates the effectiveness of the super system. It says while super is doing its job at present, big changes need to be made to accommodate the realities of our ageing population.

The report notes Australians have a heavy dependence on the age pension, costing $41 billion a year. As retirees are living longer, the cost is set to increase to $50 billion in the next four years.

To take pressure off age pension funding, it recommends taking into account the value of the family home in assessing age pension eligibility. That could encourage middle-income earners to downsize or even take out a reverse mortgage to supplement their income.

The paper also recommends more incentives for taking income streams rather than lump sums at retirement, which could mean super lasts longer for more retirees. It also suggests retirees allocate part of their savings to a type of insurance or longevity pool to prolong the lifetime of their income. STEPH NASH

Projected wealth at 65 (current $, couple)



SOURCE: ACTUARIES INSTITUTE

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INSIDE MY MONEY THIS MONTH

Buy before you sell

Proper bridging finance is the secret to success, writes Effie Zahos

IS IT POSSIBLE TO BUY A PROPERTY before you sell? Absolutely! I've done it – but not without a few butterflies. You've got to be confident that your property will sell and that it will sell in record time. If you can't engineer a simultaneous contract settlement, then you need to be certain that your lender has a true bridging finance product and doesn't just simply slap two mortgages together. If they do, it could cost you the approval.

First things first. There's no point buying before selling if you think you will have trouble offloading your home. Most experts measure the health of the market by auction clearance rates. But Angus Raine, executive chairman of Raine & Horne, says a truer indication is "days on market" – the time between a property hitting the market (the listing) and an offer being accepted.

In Sydney Raine & Horne's figures show the days-on-market indicator is running at 30 days a property on average. If you were to look at days on market across all sales from CoreLogic RP Data, Sydney sales have been sitting on an average of 49 days over the past 12 months. Brisbane's are on 68 days, Melbourne and Perth's are both on 64, Canberra is on 70 and Darwin is on 95.

"If the days on market are short, as is the case with Sydney and Melbourne real estate, then it's appropriate to label it a seller's market," says Raine. "In contrast, in the dark days of the GFC, days on market for housing in NSW's Southern Highlands and Canberra were closer to 350 days."

Whether it's a buyer's or seller's market in your area, Patrick Bright, a buyers agent from EPS Property Search, says if your home is priced right – around the average price for what it offers – then it shouldn't take any longer than one to two weeks.

Having said that, he says it can depend on its appeal. "Most homes that sit around more than two weeks in a seller's market are poorly marketed, have a less than good sales agent or are overpriced – or there's a combination of those points."

The typical settlement period is about 42 days. If you're about to buy another property by drawing out the equity in your home loan, as I did, you could give yourself some more time to sell your home by delaying settlement on the purchase. The other party will, of course, have to agree to this. Bright says six to 16 weeks is common; the longest period he has negotiated is nine months.

Most owners buy before they sell with the help of bridging finance. The trap here is that if your lender simply offers you two mortgages, you may not be able to prove that you can afford them both.

"It's what brings people unstuck," says Michael Daniels, NSW-ACT manager for Smartline Personal Mortgage Advisers. "A few lenders do bridging finance really well but many don't. That's why a true bridging loan product is really the way to go."

He gives this example. Say you're living in a house worth $700,000 with a mortgage of $400,000 (equity of $300,000). You want to upsize to a house worth $1 million. Those with a true bridging loan will assess your repayment capacity on your "end debt" once the first property is sold. Here, that would be $700,000 ($400,000 from the original property and the additional $300,000 for the new property), not $1.4 million, which could be hard to service.

With true bridging finance, there is normally a maximum time period of about 12 months – the original property needs to have been sold and settled in that time. A full valuation – not just a desktop valuation – will be carried out by the lender to ensure that the original property is saleable.

Daniels says lenders without a true bridging product will assess your repayment capacity on the "peak debt", which would be $1.4 million ($400,000 from the original property and $1 million for the new one). Effectively, you'd have to be assessed as being able to afford double the debt – which is massive. This is not really a bridging product, just two mortgages. However, there would be no time limit on selling the property.

As for repayments, that depends on your lender and your equity. Some allow interest to be capitalised, meaning you can free the repayments on your bridging loan, leaving you only the home loan repayments to worry about, while others insist you cover your interest repayments at least. If your lender doesn't offer you a true bridging loan, it could be worth refinancing.

Money's editor has more than 19 years' experience in the finance industry

CONSOLIDATE DEBT FOR A FINANCIAL SPRING CLEAN

Multiple credit card and personal loan repayments each month can be a headache to manage, and cost you unnecessary interest and fees. Consolidating debts can reduce stress and hassle by moving to just one regular repayment.

To start, look at your whole financial situation to understand what debts you have, how much you owe on each, how much interest you currently pay and any additional fees that may apply.

Work up a detailed budget to understand how you are spending your money and whether a personal loan could help simplify your financial situation.

Once you've worked out how much you owe and what you could afford, a comparison site such as Canstar's can then help you to find the right personal loan to help pay off your debts sooner.

Consolidating debt into one competitive personal loan can offer peace of mind in knowing what you owe each month. With interest rates at historic lows, consider one of the great fixed rates on offer at the moment so your repayments won't increase during the loan term.

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Cash flow is king

It's vital to know where the money is coming from and where it's going, writes Anthony O'Brien

AFTER FAIRLY COMPREHENSIVE planning you've decided to sack your boss and plunge into small business. This significant decision was made by 20,500 entrepreneurs between June 2013 and June 2014, reports the Australian Bureau of Statistics.

Starting a business should never be undertaken lightly and it's essential to understand the time-worn advice that "turnover is vanity, profit is sanity, cash is reality". But what does this mean?

"It means that for new small business owners, cash flow management is your new best friend," says Jonathan Perry, manager of marketing and business development at Canon Finance Australia. "Many profitable and seemingly successful businesses have failed because cash flow has faltered."

Good cash flow management, in simple terms, means understanding every inflow and outflow, says Perry, and it starts with the office and IT equipment.

Whether you're starting a consultancy firm, real estate agency or motor repairer, some basic office equipment will be required. A popular laptop such as a 14-inch Lenovo Yoga 3 with Windows 10 and Microsoft Office will set you back about $1400, according to retailer Officeworks. A printer such as the Epson WorkForce WF-3640 colour inkjet multifunction retails for $198, while $297 will buy you a decent ADSL router such as the Netgear AC1900 wireless R7000 Nighthawk. Expect to pay around $500 for an ergonomic desk and chair combination. In total, about $2400 will cover the basic office equipment Multiple business partners or employees can mean a much bigger outlay.

Lease versus loan

Accountant Katarina Vencel, of Sydney-based Vencel Associates, says funding business equipment should be a cut-and-dried decision for most start-ups. "You might pay a little more for the equipment with a lease due to extra interest payments," says Vencel. "However, the interest is tax deductible and the business will have better cash flow from the outset." Perry agrees: "For many businesses, leasing provides an alternative method of financing an asset where the capital cost may otherwise be prohibitive."

As a rule of thumb, size matters when it comes to commercial leasing deals, according to mortgage broker Marshall Condon, managing director of Mortgage Choice, South Yarra. "Interest rates for leasing office and IT equipment range between 6% and 8%," says Condon. "What a business pays depends on the age of the equipment, the extent of the warranty and the after-sale service. And if you borrow more money, the rates will be more competitive."

The rub is that many start-ups will be ill equipped to apply for commercial finance. "A lender will want to see tax returns or a decent deposit before rubber-stamping a finance application," says Condon. "The lender wants evidence that a small business can meet the repayments, whether it's a lease, overdraft, credit card or personal loan. This situation is even harder since the big push by the Australian Prudential Regulation Authority (APRA) to ensure that consumers and commercial entities are able to evidence serviceability of their debts."

Entrepreneurs could circumvent the stringent commercial lending environment by tapping their home equity to finance business equipment, especially as mortgage interest rates are at all-time lows. This will usually involve extending a mortgage to cover start-up business costs. However, it's a strategy with a level of financial risk, should the business go belly up. "People prefer to use a lease because it's putting the risk of foreclosure on the business asset instead of their home, should something go wrong," says Condon.

Apply for finance first

Be sure to apply for finance before taking the leap of faith into a start-up venture. "If it's a new business, it might be better to apply for a loan or lease while you're still in paid work," says Condon. "To obtain approval for business finance, you will need to prove some level of income or cash flow. Having a job will help.

"To ensure you can successfully apply for the level of debt you need, use your wage or salary as cash flow evidence before quitting your job. Go to the lender after leaving work and the odds of getting a lease or a loan will be much longer."

Anthony O'Brien is a small business and personal finance writer with 20-plus years' experience in the communication industry.

MEASURE OF SUCCESS

Maintaining good cash flow is crucial to a small business, but one of the biggest mistakes a business owner can make is to neglect cash flow in favour of other business goals. To ensure you have more cash coming into your business than going out, you should know your daily and overhead expenses, how much you should charge customers and inventory levels among other stats.

Knowing how much you've budgeted for IT equipment and services is a key part of the cash-flow cycle. Take a look at your business and evaluate your IT needs – perhaps your business deals with a lot of data and requires cloud storage or a faster fibre connection? Or do your staff travel often enough that you need a cost-effective mobile fleet plan? Bundling internet and phone products can also help you save money, freeing up additional funds you can reallocate.

iinet business

Liz Fotiou, marketing manager, iiNet Business

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Fix your credit file yourself

Credit repair agencies are an unnecessary expense, writes Anne Lampe

A LOAN APPLICATION, BE IT SIMPLY for a new credit card or as important as a mortgage, will trigger a review of your credit file. It is then you may find you have at least one negative report on your credit file because the lender has concluded you are a bad risk and rejects your application.

Your credit file may or may not be completely accurate. Apart from your ID details, a typical report contains information such as payment defaults over the past five years, missed or even late payments, disputes with creditors, judgements, overdue accounts, bankruptcies and a partner's financial defaults on joint credit facilities.

A bad report can also result from making multiple loan applications to different lenders – loan shopping – which can be interpreted as several knockbacks when in fact no application was actually rejected.

What is on my report?

You can apply online by searching on the internet for "free credit report". Veda has about 80% of the credit report market and Dun & Bradstreet the rest. Getting the report may take two or three weeks. If you want it in a day you'll pay about $80.

The report will contain a detailed credit history, including applications you have made for loans in the past five years, details of overdue consumer credit accounts, account open and close dates, credit limits, monthly repayment history and whether or not you paid the minimum amount required on your financial commitments each month. It will also show any court judgements and writs.

How does it work?

Credit repair agencies say they will restore your good credit record by erasing black marks that result from contestable entries. Contestable entries are essentially mistakes on your file, where lenders have not recorded payments you have made, or entered incorrect dates or amounts, or the wrong person is identified as defaulting. You may have been confused with someone else with the same or similar name.

What these agencies can't do is eliminate correct default information, or black marks resulting from bankruptcy, or court judgements against you.

How much does it cost?

Credit Repair Australia, which claims to be the leading provider of both credit and debt solutions, would not disclose what it charges but says as a guide the process typically costs between $600 and $900 initially. This amount is likely to increase depending on how much work is required to clear contestable blemishes.

The company says the process could take around 30 days but each case is different and it could be longer. Customers enter a payment plan that costs between $80 and $100 a week for the company to get to work.

A really messy file, that Credit Repair says it tackled, involved 23 errors and it took a lot more than the typical 20 to 30 hours of work to review a file, investigating how each entry is created and how creditors came up with the information. The company says that, if it is clear from your file that there is nothing that can be done (for example, in the case of judgements) or that there are no apparent errors, it won't charge and tells you that you are better off handling it yourself.

Credit Repair says it charges on a success basis and if there is no success the fee is reimbursed. It reckons in 10% of cases there is no charge. It claims to have 13 to 14 years' worth of experience in cleaning up bad credit files and that it has skills that individuals with a bad file often don't have.

Useful contacts: Credit & Investments Ombudsman, cio.org.au; Financial Ombudsman Service, fos.org.au; Telecommunications Industry Ombudsman, tio.com.au.

Anne Lampe has written for The Australian Financial Review *and* The Sydney Morning Herald, *winning a Walkley award in 1991.*

Credit repair agencies

Pros

- If you don't have the time, or feel overwhelmed by the process and the likely paperwork, someone else will do it for you.

Cons

- The Consumer Action Law Centre is concerned these agencies are unregulated, may charge big upfront fees and that their advertising is vague about what can be achieved. CALC says you can get advice about your blemished credit file from a free financial counsellor and accurate negative entries on your file can't be fixed. CALC claims credit repair companies tend to target those in financial stress who panic.

My call

- By doing it yourself you can save a lot of money. If there are errors on your file they can be countered by your bank and other records, showing that the payment was made and when. If there are multiple loan applications and no rejections, these can be explained. If you hit a brick wall on your own, contact a financial counsellor or go to the Credit Ombudsman Service.

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For any feedback, or schemes you'd like me to investigate, email money@bauer-media.com.au

REFINANCING

Play it SMART

Lenders are keen to win your business, so shop around to see if you can negotiate a better mortgage

STORY MARIA BEKIARIS

WHETHER YOU'RE after a better rate, more money to renovate, flexible features or just a way to streamline your debts, there are a number of reasons it can make sense to refinance your home loan.

"Gone are the days when people stayed with one financial institution until they paid off their mortgage," says Robert Ryan, CEO of IMB Bank. "Consumers are much more savvy these days and will consider their financial position and compare what else is on offer in the market. Rates are lower and more competitive than they have ever been and lenders are working hard to get your business. Technology has made it easy for people to review all the options and find a better deal."

Doing your homework is vital. "Understand what else is on offer and use that for leverage. Talk to various lenders and see what they are prepared to offer you and be prepared to negotiate," says Ryan.

Mitchell Watson, the research manager at Canstar, agrees. "Information is power when it comes to refinancing, especially around the negotiating table," he says. Comparison sites such as Canstar and RateCity are a great place to start your research.

"If you're paying anything above 4.5% on your home loan then you are paying too much and should shop around and be ready to switch if you get a better offer," says RateCity financial analyst Peter Arnold. You'll find some of the lowest-rate loans in the table on page 50. When you're comparing rates don't just look at the advertised rate, because that doesn't take into account fees and is not a true reflection of the cost.

One way to get a real idea of the costs is to use the comparison rate, which rolls most of the ongoing fees into the rate, says Arnold. "But there are still some limitations to be aware of. The comparison rate is calculated using a

"If you're paying anything above 4.5% on your home loan then you are paying too much and should shop around and be ready to **switch if you get a better offer**"

loan of $150,000 repaid over 25 years, which doesn't reflect most borrowers' mortgages."

Terry Millett, Newcastle Permanent CEO, says the comparison rate is a great leveller, which helps you to understand the actual cost of your home loan each year, expressed as a percentage of the loan value. "Every lender is required by law to publish the comparison rate on their loans, so it should be easy to find. If not, think twice about that lender," he says.

Features are important

If you're taking a new loan, make sure the advertised rates aren't promotional – for a limited period and then reverting to a less attractive rate.

"Be wary of lenders presenting you with claims of money savings that could actually be achieved with your existing loan, for example just by making repayments more frequently or storing money in an offset account," says Millett. "Understand your existing loan features and cost and you'll be in a great position to understand what else is on offer and ask the right questions."

It's important to consider features as well as price. "Understand what you do and don't like about your current loan. This will then help you home in on the product which is going to be right for you. If you like using an offset account, that should be on your list of must-haves to ensure a happy refinance," says Watson. "Some compromises may have to be made but have a list of non-negotiable things – for example, I want to save at least $50 a month on my monthly loan repayments, must have an offset account, online access to check on balances, etc."

Features to consider include redraw, offset, the ability to split between fixed and variable, and the option to make extra repayments without penalty. "Think about your future requirements," says Ryan. "Will you be looking to pay off more than your monthly repayment? If so, make sure your mortgage allows you to do that without penalty."

Sometimes it might not pay to move your loan. One reason might be the cost. "Exit fees" were banned in 2011 but, if you have a fixed-rate loan you can still be hit with a "break fee". "If all or part of your current home loan has a longer-term fixed-rate component that you applied for in the last two-plus years there is a very good chance that your lender will charge you a 'break fee' to discharge your loan," says Millett. "That is because fixed interest rates are generally lower now. Break fees can be significant, so call your lender to get an estimate of the 'loan payout' figure."

Even if there are no break fees there might be other cash costs involved in switching, such as application and valuation fees, says Arnold. "Of course there are non-cash costs – the time it takes to look for, negotiate and complete a loan application isn't trivial – but let's focus on the cash costs only, which we estimate on average to be $600 to $800," says Arnold.

You need to take these costs into account when you're thinking about whether the changeover is worthwhile. "A saving of $50 a month sounds good but if the cost to refinance is $600 or more it will take at least a year before you are actually saving any money," says Watson.

The website moneysmart.gov.au has a handy "mortgage switching" calculator that you can use to work out how long it will take to break even. You can do the number crunching yourself by adding up the cost to refinance and dividing them by your monthly savings. For example, if it costs $1000 to switch but you'd save $50 a month in repayments, it would take 20 months to "break even". That might not sound too bad but a question to ask yourself is whether your new lender will remain competitive long enough for you to recoup your costs.

"We estimate that, for most borrowers, assuming you refinance into a lower-rate home loan with low or no ongoing fees, then you are likely to have recouped the costs of switching inside 12 months," says Arnold.

LMI could be a hurdle

Before thinking about switching, make sure you have built up enough equity in your home. "Remember, if you have less than 20% equity, many lenders will require you to take out

BOOST YOUR CHANCE OF SUCCESS

If you switch lenders, you will need to go through the whole application process again, so it pays to be prepared to increase the chances that your application will be approved. Ways to help your case include:

- Impress the lender by having a statement of position prepared – a detailed list of all your assets and liabilities as well as a written budget so that they can see your incomings and outgoings.
- Make yourself familiar with your repayment history on your existing loan. Newcastle Permanent's Terry Millett says: "Have you got a strong case for a cheaper rate and would you make an attractive customer for a rival?" The amount of equity you have in your home is also relevant. Customers with an 80% loan-to-value ratio (20% equity in their home) are attractive for lenders, and don't have to pay lenders mortgage insurance.
- Get a copy of your credit report to see what's on there that might affect your application. It's available free from mycreditfile.com.au or dnb.com.au. If there are any black marks against you, it pays to know about them so you can get any errors corrected or explain them to lenders.
- "Before you contact a new lender about refinancing, get all your documentation ready. This will make the process much smoother and show what an attractive prospect you are to the new lender," says Millett. This includes recent payslips, home loan statements, records of your savings and details of any other debts.
- Get rid of any unneeded debt – cancel credit cards or reduce the credit limit so that your liabilities are lower.
- If you're asking for additional funds, make sure you have a legitimate reason that's not a holiday or debt consolidation says Millett. "A renovation plan that's already approved by your planning authority is a strong argument that you'll use the extra funds to build more equity into your home and that you're a strong credit prospect for a lender," he says.
- Consider using an experienced mortgage broker to assist with the application. They can help you with the paperwork, have a better idea of what lenders are after and can give you a good idea of how much you can ask for.

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lenders mortgage insurance. In one of the remaining barriers to real loan portability and therefore real competition, LMI isn't portable," says Arnold. "So if you take out a new loan and still have less than 20% equity you'll have to get a new LMI policy and pay again. Not only will you have to incur the cost, you're unlikely to get the most attractive refinancing offers, because your low level of equity by definition makes the deal riskier for a lender than if you own more of your home."

It could also pay to stay with your current loan if your circumstances or income have changed. "Even if you've been repaying your current loan for years, when considering a refinancing application lenders will look at your ability to 'service' – or repay - the new loan," says Mortgage Choice, offering the example of your credit file having a few black marks or if you have become self-employed since taking out your current home loan. Another reason might be if a partner has stopped work to look after children and is no longer earning an income.

Getting a better deal doesn't necessarily mean having to switch lenders. "Talk to your current lender and some competitors. Right now you'd be surprised at how much lenders are willing to negotiate against advertised rates," says Arnold. "If you're an owner-occupier with more than 20% equity, then most lenders will be hungry for your business, so use this as an excuse to demand a discount."

IMB's Ryan says lenders are eager to keep their customers and may review your arrangement if you contact them. "But make sure to find out what else is available and compare the facts. There is no short cut – you need to do your homework and find out which offer is the best value for you." If you do refinance, Millett suggests that to get the most benefit from your new loan, adjust the term based on where you were on your previous loan. "For example, take a 25-year loan if you're five years into your existing 30-year one – this will help you pay the new loan off faster, helping you build equity in your home sooner," he says. ***M***

THE BEST MORTGAGE OFFERS

INSTITUTION	PRODUCT	RATE	AAPR	3-PLUS PAYMENT OPTIONS	IO	REDRAW	100% OFFSET	UPFRONT FEES
Mortgage HOUSE	Pure and Simple ULTRA	3.89%	3.89%	✓	✗	✓	✗	none
Homestar Finance	Basic Refinance	3.94%	3.95%	✓	✗	✓	✗	none
AMO Group	Basic Variable	3.89%	3.96%	✓	✗	✓	✓	$1470
Mortgage View	Special Offset to 70%	3.97%	3.98%	✗	✗	✓	✓	none
Mortgage HOUSE	Pure and Simple	3.99%	3.99%	✓	✗	✓	✗	none
Reduce Home Loans	Rate Buster Variable	3.98%	3.99%	✗	✓	✓	✓	$1150
Homestar Finance	Homestar Plus[1]	3.98%	4.01%	✓	✓	✓	✓	$495
Freedom Lend	Freedom Variable	3.98%	4.01%	✓	✓	✓	✓	$825
Easy Street Finl Serv	Easystreet Basic Var	3.99%	4.01%	✓	✗	✓	✗	$500
HSBC	Home Value OO	3.99%	4.03%	✓	✓	✓	✗	$852.50
loans.com.au	Essentials Variable OO	4.02%	4.04%	✓	✓	✓	✗	$520

Source: Canstar, 7-Sep-15 for a $250,000 loan, ranked by AAPR. All loans allow lump sum payments, have no financial penalty for exceeding repayment limit and no ongoing fees. [1]$50,000-$499,000 loan. AAPR = average annual rate with fees incorporated; IO = interest only; OO = owner-occupier

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STORY STEPH NASH

COOL CUSTOMERS

Now that summer is approaching, use these simple, inexpensive ways to beat the heat

LIKE IT OR NOT, OUR NIGHTS are getting warmer, our days are getting sunnier and our bodies are getting sweatier. Summer is on its merry way and, while some of us look forward to the prospect of sitting down with a cool drink or an ice-block on a warm day, others dread the humidity and discomfort they experience at home. Being hot and bothered in your own home can lead to long-lasting health problems, so it's worth making a few changes to bring down the temperature of your house.

Start on the outside

The most efficient way to cool your home is to shield it from the sun on the outside and prevent heat from getting in. Instead of investing a lot of money in cooling the house from the inside, Jane Eyles-Bennett, from Hotspace, recommends a look at what you can do outside. "I think a really big part of keeping cool is actually blocking heat at the source before it even enters the house. That's the smart way to do it," she says.

Aluminium or canvas awnings can shade large windows and outdoor areas from the sun. If you intend to invest in an outdoor entertaining area, an awning will not only provide you with a sheltered area for guests but it will also save you money on your air-conditioning bills. A sail or pergola will definitely be worth the investment if you have the space. If you don't, try aluminium or timber window shutters for blocking the heat and directing airflow into the house.

"When you add an awning, it not only provides sun protection but it will add dimension to the house," says Eyles-Bennett. "A lot of people do slats over the windows and that can work

really well, because it still allows light to come through. I've also done a plantation shutter on the outside of the building. That can look really good on the right sort of house but it does need to be adjustable on the inside so you can close them up on a hot day."

Providing shade can also be as easy as adding to your garden. If you have a yard with ample space, the Australian Department of Industry and Science says you can shield your home using the thick foliage of large trees and bushes.

"Direct sunlight on windows can produce as much heat as a radiator, so shade exterior windows, especially north- and west-facing ones," the department says. "Deciduous trees, bushes or vines outside windows and walls will provide heat protection in summer."

Control air movement

Airflow is paramount for achieving a cool and comfortable space in warm weather. The Department of Industry and Science says that it's important to observe the movement of air in and around the house, so that you can make structural adjustments inside to encourage the circulation of breezes.

"Learn where breezes come from during the day, and open up windows to make the most of the flow," it says. "See if you can open up at least two or three windows in every room to maximise flow. When it cools down outside, open up your home to the evening breeze. This will lower the temperature inside. Create airflow by opening windows and doors on opposite sides of the room."

Going open plan is always a good way to stimulate air movement. If you're looking for a cheap way to make your house cooler, consider taking out a few walls. Enclosed rooms tend to trap hot air and moisture, so it's a big no-no if you live in the tropics.

"You'll have to think about how you can create that airflow but still make the space functional with the walls you're removing," Eyles-Bennett says. "A lot of houses have enclosed kitchens, dining rooms and lounge rooms. If some of those walls are pulled out, it can encourage better airflow."

You can also control air movement by making a few adjustments to the ceiling. When air heats up, it rises, which can mean sweaty summer nights if you have a second storey. Installing a "whirlybird" ventilator can help that hot air to escape, promoting airflow in a space that's usually hard to control.

"Whirlybirds can be quite effective. If you're going to put in a whirlybird, I always recommend that you try and install it so you can't see it from the street," Eyles-Bennett says.

CUT ENERGY COSTS

Buying an air-conditioner may seem the easiest solution to your heating and cooling needs but it is without doubt the most expensive. If you live in a tropical area, you're probably among the top energy consumers. The Australian Department of Industry and Science says air-conditioners and pools are the top two drivers of electricity use in households. Homes with ducted air-conditioning use 79% more electricity on average than those with none, while those that have split air-conditioning consume around 34% more.

Electricity is expensive, so if you're looking to cut costs on energy usage, make sure that you:

- Keep your air-conditioning system shaded from the sun.
- Select an energy-efficient pool pump.
- Run your pump efficiently.
- Maintain your pool properly to minimise pump use.
- Minimise evaporation and save water by purchasing a pool cover.

Turn off appliances

Did you know that your appliances can also have an impact on temperature? Old ones, especially, tend to get really hot as the current flowing through the device faces resistance from electrical wiring. It's good practice to turn off appliances when they're not in use, and to only utilise large appliances during a cool part of the day.

"Electrical appliances and lighting can pump out heat too, so turn off lights, computers and televisions when not in use, and try to use the dishwasher or washing machine in the morning or evening when it's cooler," the Department of Industry and Science says. "Even your choice of light globes can make a difference to the heat in a room. Compact fluorescent lamps (CFLs) and light emitting diodes (LEDs) not only emit less heat than older-style light globes but they are far more energy efficient and last longer."

If you're contemplating buying an electrical device to help cool the house, the experts always recommend having a go with a fan first. Fans cost much less than air-conditioners and are much cheaper to run.

"When you consider that around 40% of home energy use goes to heating and cooling, it's not hard to see how making small changes to your cooling habits can have a major impact on your energy bills," the department says. "If you decide to use electrical cooling, consider using fans. They use a fraction of the energy an air-conditioning system uses and create a breeze to make you feel cooler."

That said, some of us prefer the luxury of an air-conditioner. But if you're going to go down that road, it is important to use it properly so you don't spend too much on running costs.

"If you have an air-conditioner, only use it when you have to and don't overcool. Set the temperature between 25°C and 27°C," the department says. "Setting the thermostat even one degree higher can save you between 5% and 10% on your energy use. Consider buying a programmable thermostat for your air-conditioner so that you can set it to suit your schedule and needs."

Design v function

While making structural changes to the home may be necessary to bring about a change in air temperature, Eyles-Bennett says you should never lose sight of the aesthetics. Design is just as important as function, and it would be a shame to spend a lot of money in renovations only to eventually find that you've brought down the value of your home.

"There's a term in design called 'form follows function', which basically means the way it looks is less important than how it functions. While I believe that, I still have a very strong love for design and I think both of those things can work together. How something functions and how something looks are both equally as important," she says.

"There are shades that roll down over the outside of the window, but I think they sacrifice form and design. There are other ways of shading the light that don't make your home look horrible." **M**

Cool by design

Make room for the office essential that's as functional as it is stylish – the powerfully cool, precision-engineered Dyson AM06 table fan.

Sharp design, solid investment

On hot days when deadlines approach, the Dyson AM06 table fan keeps your workspace at the optimum temperature. The powerful airflow of Dyson's Air Multiplier technology creates a smooth jet of air to maintain the cool of the room – and your focus – without fussy blades.

Energy efficient
Your power bill won't have to take the heat for all this cool. Clever engineering means Dyson Cool fans now use up to 40 per cent less energy.

Cool for any room
Dyson's Cool range has you covered. The AM06 table fan is your go-to for personal cooling, the AM07 tower fan for living areas and AM08 pedestal fan is perfect for use in bedrooms.

Works the room
Whatever desk you have, there's a Dyson model to complement it. The Dyson AM06 table fan comes in white/silver, black/nickel or iron/blue.

Explore Dyson
Scan this page using the free viewa app to learn more about the Dyson Cool range.

No blades, no worries
With no fast-spinning blades and no awkward grilles to accumulate dust and grime, Dyson Cool fans are safe for use in any indoor environment and are easy to clean.

Powerful airflow
Air Multiplier technology allows the Dyson AM06 table fan to draw in surrounding air and amplify it, creating a smooth jet of air to cool you.

Quiet achiever
Now up to 75 per cent quieter than the previous generation, Dyson Cool fans are acoustically engineered to reduce noise and feature the Quiet Mark stamp of approval.

Dual control
Use the sleek remote to set the sleep timer or soft-touch button to control power and adjust airflow. An LED display lets you know the current setting.

dyson cool

For more information visit **dyson.com.au/fans**

Handle with care

The solution for a parent who is growing frail is not at all simple, writes Susan Hely

MY MOTHER ROSEMARY stubbornly refused help as she grew frail in her own home. But it reached the point where she wasn't eating properly or taking her medication. Housework and shopping were almost beyond her.

Some help would keep her safe in her own home for longer, I told her, but she was very independent and had a million reasons why she didn't want help: she could do everything herself, it would cost money and she didn't want strangers in her home. She never wanted to be a bother to anyone, so it was an all-consuming effort to get her to accept help.

The first step in getting aged care help is to book an assessment with an aged care assessment team (ACAT, or ACAS in Victoria). It can be a long wait to be assessed, in my case six months. Eventually Rosemary joined the 500,000 older people around Australia in the Commonwealth home support program. She received six hours of help a week, spread over four days, and she qualified for a low-cost package because she was on a part age pension.

Rosemary's carers treated her respectfully but her vascular dementia worsened and she needed 24-hour attention, which meant live-in care or an aged care home. Of course she wanted to stay in her home but 24-hour home care is expensive. A friend's family spent $250,000 a year for an at-home service, where an agency provided three shifts of carer a day so there were night and weekend rates.

Figures vary for nursing homes but I found that the most expensive in Sydney cost around $100,000 a year in fees on top of the bond. Adamant that she could manage, Rosemary wouldn't hear about moving. It became a terrible battle.

Choosing a good nursing home is a bit like choosing a school for your kids. Just as the headmistress and quality of the teachers is key, so too are the home's manager and the staff.

Ask your friends and neighbours about their parents' aged care homes. I asked my chemist, mum's doctors – the GP, the geriatrician – and the social worker at the hospital. You might get a crumb of advice that can turn out to be gold and save you a lot of time. You should still meet the manager and see for yourself but it helps to narrow down the long list of choices. Also pick an aged care home close to you so it easy to visit.

If dementia is evident, my advice is to look at an aged care home with suitable care early on. There are often no vacancies in good aged care homes so it is vital to get your parent's name on a waiting list. If you don't and your parent ends up in hospital and can't go home, then the hospital can send them anywhere there is a bed, even if it is a long way from where you live.

If you find a home you like but there is a waiting list, call up the manager regularly. Once you have found a spot, get to know the staff, especially if your parent is difficult.

Rosemary found a newish, low-care nursing home with a small number of rooms and a dynamic diversional therapist, who ran plenty of activities. But when she fell and broke her hip and then later her shoulder, she needed high care so we had to go through the whole selection process again.

She grew quite fond of the home and the staff and was keen to return after a day out. But adapting is stressful for old people, so it is best to choose a nursing home that offers the full range of care, or "ageing in place", which is much more prevalent under the new rules for aged care homes that were introduced last year.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote best-selling book* Women & Money.

WHAT TO DO

- Organise a meeting with an aged care assessment team. The waiting list can be long.
- Visit myagedcare.gov.au or phone 1800 200 422 and look at the nursing homes in your area. Make appointments to visit them. You need an assessment before they will see you.
- Discuss the cost of the bond and day rates so you know the costs. There are layers of fees and some are means-tested.
- Don't run yourself ragged. Use some of the carer services and seek carer counselling by phone. Contact Carers Australia on 1800 242 636 for more help.
- Submit applications to your preferred homes. Keep in contact about availability.
- Does the home have around-the-clock nursing care? Remember to budget for equipment such as a wheelchair or a reclining day chair.

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PROPERTY

MARKET FORCES

When is the right time to sell?

Angus Raine
executive chairman, Raine & Horne

Whether it's shares or property, timing an asset sale to achieve the best price possible is often a challenging assignment.

Also real estate isn't like the sharemarket, where it's possible to sell a few stocks here and buy a few stocks there to take advantage of short-term price movements. Rather, the vast majority of people sell their homes because they have no choice.

It may be that a new bub has triggered the need for a larger home, or the last of the tribe has moved out and the home owner is now lording over an empty nest that is simply too big to maintain.

Alternatively, a property sale may be activated by a family break-up, a marriage or an interstate or overseas job transfer. Or it's been prompted by a lifestyle choice to move from the city to the coast or the bush. A move

to an aged care facility or a death can also spark a property sale.

Once a decision to sell a property is taken, maximising the sale price is vital and often involves recognising prevailing market forces. For instance, with the premium end of the market (above $10 million), the falling Australian dollar is initiating some big sales. A lower $A makes local prestige properties more financially appealing to cashed-up international buyers and Australian expats.

Home owners in popular coastal holiday haunts are also now enjoying the green shoots of a post-GFC recovery. Whether you're a local in a holiday town, or someone who's lucky enough to own a holiday home, if you've been considering selling, now could be a good time to make a move.

Keys to a classy kitchen

A good-looking kitchen is a must-have for a high-returning property. A new kitchen typically adds 4%-6% to the value of a home, so if you're thinking of renovating, this is the best place to start. The Housing Industry Association has nominated the top five kitchen design trends from the 2015 Melbourne Home Show:

- **Entertainment**: With the rise of home cooking shows, kitchen design has changed to complement the resident master chef. A butler's pantry provides a hidden place for food preparation and mess. Gadgetry is also a feature, allowing for device interconnectivity for chef, guest and home.
- **Industrial benchtops**: The hybrid kitchen benchtop is resilient, sturdy and flexible, combining form with function. Engineered or natural stone is scratch-resistant and fingerprint-proof. Mobile islands are also becoming more popular, allowing you to alter your bench space as you please.
- **Colour blocking**: Bold and bright colours are on their way back. Sparse use of adventurous colour can define upper or lower cabinetry, highlight a splashback or create a tiled feature underneath benchtops.
- **Industrial lighting**: Black or stainless steel pendant lighting is a hot feature. For both food preparation and entertaining, good lighting in the kitchen is a necessity. Wire caging, transparent glass or old-fashioned globes and hardware are among the top lighting trends.

- **Matte and metallic:** Gold, brass and copper are a key design trend for 2015. Malleable across fittings, fixtures and tiles, these rustic tones bring a sense of luxury into the home. Matte black is also making a comeback, in the way of pendant lighting, feature tiles and tapware. STEPH NASH

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INSIDE PROPERTY THIS MONTH

Deals are not so sweet

The developer, not an investor, is likely to be the winner from a rental guarantee, writes Pam Walkley

FOR MANY PROPERTY INVESTORS, a rental guarantee, offered by a developer or marketer for a certain period, can sound very attractive. Especially for those buying into an oversupplied market, like inner-city Melbourne apartments, where finding tenants is getting tougher and rentals are on the way down. CoreLogic RP Data reports Melbourne apartment rents fell 1.8% in the year to July 2015 and the gross yield is 4.2%.

But rental guarantees usually have strings attached. The cost of the guarantee, and often more, is usually factored into the purchase price. So in effect you are paying the developer upfront for the rent he will repay you over the next few years – that is if he is still around to honour his guarantee.

"Rental guarantees allow the developer to hoodwink investors," says Neil Jenman, a real estate agent turned consumer advocate and business consultant. Typically rental guarantees are offered because the developer wants to charge more than the market price. An example would be where the market price is $400,000 and the market weekly rental is $350, giving a gross yield of 4.5%, but the developer wants to charge $450,000. So it sweetens the offer with a two-year rental guarantee of $500 a week, giving an attractive yield of 5.7%.

The developer leases the apartments at $350 and tops up the rental by $150 a week. Over two years this costs the developer $15,600 but it makes the developer an extra $34,400. On 100 apartments it would make an additional $3.44 million.

In two years, when the rental guarantee runs out, the investor may be faced with a nightmare situation. If the market is still oversupplied, they will find it difficult to tenant the property at much above the original $350 rental ($18,200 annually). And if the investor wants to sell, they are likely to find that, at a 5.7% yield (propped up by rental guarantees on new apartments), the property is valued at around $320,000.

Sometimes an investor doesn't even get their full rental guarantee, which is only as good as the company behind it. Former Adelaide-based developer Charterhill Group, founded by George Nowak, sold many properties with long-term rental guarantees through Australian Leasecorp, of which Nowak was sole director. When Charterhill collapsed in early 2014, Nowak emailed investors telling them the company could not meet its rental guarantee commitments.

With other markets expected to follow Melbourne's inner-city apartments into oversupply – forecaster BIS Shrapnel says median prices will tumble 2% to 12% in real terms over the three years to June 2018 – investors should proceed with caution.

Another trap is many new apartments are marketed off the plan. An investor buying off the plan in a market heading into oversupply will likely make a loss on settlement. But those who buy off the plan in rising markets – such as Sydney's over the past two to three years – can make money.

But even they can be stymied, as shown where contracts are cancelled. An investor paid $890,000 in June 2013 for a two-bedroom apartment in Sydney's inner-city Surry Hills. The contract cancellation came after she had seen ads for resales of other two-bedroom apartments in the complex, with asking prices of more than $1.3 million, reported Domain.

Developer Samadi Group could rescind the contract because the work was running more than a year late. Samadi director Ash Samadi cited rising building costs and an amended floor plan as reasons for cancelling the contract. "I can't deny the fact that the market has moved further up, but if my sole motivation was to increase my revenue I could have rescinded every single contract, but I didn't, I just rescinded a few," Samadi told Domain.

Money founding editor and former Australian Financial Review property editor Pam Walkley has hands-on experience in buying, building, renovating, subdividing and selling property.

SMALL MARGINS MEAN BIG GAINS FOR INVESTORS

The lengths by which banks will stem borrowing for investment properties have grown. First it was higher interest rates and lower loan-to-value ratios. And now banks are applying stress testing to monthly payments on investment loans. So when you apply, banks assume you'll have to pay back the loan at a higher interest rate, which decreases the approved borrowing amount. Small margins on factors that affect your serviceability rating could reduce a loan by tens of thousands of dollars and determine whether you secure a property or not.

If you want to add to your investment portfolio, ask your lender how it will treat your existing debt when it rates your serviceability. If stress testing applies, it may be time to take your business elsewhere.

HEIDI ARMSTRONG, HEAD OF CONSUMER ADVOCACY, LIBERTY FINANCIAL

STORY PAM WALKLEY

On the shopping list

Investors stand to benefit too as the outlook improves for both retailers and their landlords

AUSTRALIA'S LARGE and diverse retail sector provides plenty of choice for investors. It includes Woolworths and Wesfarmers, which derive most of their income from selling everyday necessities such as groceries, department stores such as Myer, and specialist retailers – among them JB Hi-Fi and Specialty Fashion Group –which rely on shoppers' discretionary spending.

Another way to invest is a stake in a landlord such as Charter Hall Retail, which owns more than $2 billion worth of shopping centre property, or Scentre Group, which owns and operates Westfield's Australian and New Zealand stores. Indeed, the financial performance of some landlords has outstripped that of some retailers in the past few years.

For those who prefer to put at least some of their money into unlisted investments, which aren't subject to sharemarket volatility, there are retail property syndicates, including a new one, the APN Convenience Retail Fund. (See "The unlisted alternative", page 62.)

Overall the retail sector has been through a patchy time as many consumers have been saving, rather than spending, surplus income in the aftermath of the GFC. But now things are looking up. Retail sales grew 4.6% to $24.1 billion year-on-year to May 2015, below the 6.04% average from 1987 to 2015 but well above the record low of 2.05% in October 2008, reports the Australian Bureau of Statistics (ABS).

Over the year, spending on household goods jumped 9.5%, clothing and footwear was up 8.8%, food retailing rose 4%, and cafes, restaurants and takeaway spending increased 3.25%. Department stores, up 1.6%, dragged the chain.

Retailers that sell computers and other electronic gear, office furniture and cars have been beneficiaries of the May federal budget's small business package, which enabled businesses earning less than $2 million a year to claim an immediate deduction for every item they purchase up to $20,000.

Some discretionary retailers have suffered from the growth in online purchases from overseas, which have been GST free if they cost less than $1000. But the government plans to change this, and will charge GST on all overseas purchases from July 1, 2017, levelling the playing field for local retailers. And if the Productivity Commission's recommendation to reduce Sunday double-time penalty rates for retail and cafe workers to Saturday rates (time and a half) goes ahead, that will be another boost for retailing.

Value in shares

"After the recent market correction, one sector flashing value is retail stocks," said John Abernethy, the CEO of Clime Asset

Management, in late August. “They have suffered from weak consumer confidence and growing competition but their share prices have now fallen into value and they also offer attractive dividend yields.” (See “Top retail stocks”, opposite.)

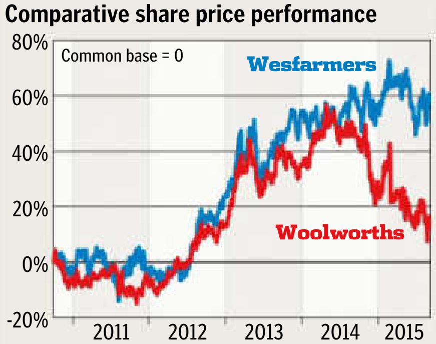
The market has continued its volatility into September and the All Ords is down almost 7% in the month to September 11.

Nathan Bell, the research director at Peters MacGregor Capital Management, warns that the retail sector can be very risky. “Once a retailing concept loses its popularity, the stock usually loses most of its value,” he says. “Judging the future of consumer preferences and competition is frightfully hard.

“Even grocery retailers like Woolworths and [the UK’s] Tesco, which were once considered bottom-drawer stocks, are facing the most intense competition in their histories as shopping habits change, with lower share prices to match.”

Woolworths has also been marked down because of management and board problems and, in the recent profit season, it reported a 12.5% fall in full-year net profit, its first drop

Comparative share price performance



SOURCE: BLOOMBERG

in almost two decades. Its underlying net profit was steady and it maintained its final dividend at 72¢, taking the full-year payment up 1.5% to $1.39. Its one-year share price is down 29.9% (end of trading September 11).

The share price of major rival Wesfarmers, which owns Coles and Bunnings among other brands, has fallen 10.4% over one year. Wesfarmers’ net profit for the year to June 2015 dropped 9.3% because it sold some businesses. But underlying net profit climbed 8.3% and it will pay a final dividend of $1.11 compared with $1.05 in 2013-14, bringing its full-year dividend to $2.

Over five years, Wesfarmers is well ahead in the share price race, up 17.3% compared with a 15% drop for Woolworths. (See chart above.) Some leading analysts, including Abernethy, now rate both these major retailers as buys. “Wesfarmers is definitely a company that long-term investors should consider at the right price,” Bell said in late August.

“But at 19 times earnings it’s not cheap despite the rapid improvement of Coles and the dominance of Bunnings. Coles’s margins have been increasing as they steal market share from Woolworths but with Aldi and potentially Lidl increasing their market share as customers become more comfortable buying generic brands, further increases will be limited.” (Lidl is a German grocery business, ranked by Deloitte as the fourth-largest retailer in the world, and has plans to enter the Australian market.)

Some discretionary retailers, such as JB Hi-Fi and Harvey Norman, have had strong share price rises as people spend more on renovations and fill new homes with appliances, Bell says. “But given how mature both businesses are and their limited store expansion potential, you need to make sure you pay a cheap price – and neither look undervalued currently.”

Share analyst Skaffold disagrees about JB Hi-Fi’s price, estimating the stock is trading at a 38% discount. Skaffold ranks it as one of Australia’s top three retail stocks, alongside two others related to the housing boom, Nick Scali and Reece Australia. (See above.)

The share prices of department stores worldwide, including Myer’s, have been “crushed”, Bell says. Myer’s price has dropped more than 75% over the past five years. “Some are trying new strategies, including offering more service, having a wide online selection and reducing the number of brands they offer. Things are so dire that unprofitable stores are being closed and rebuilt as offices or apartment buildings.”

Retailer v landlord

Over the past year, investors who put their money into Shopping Centres Australasia Property Group (ASX code, SCP) – an Australian real estate investment trust (A-REIT) which is Woolworths’ landlord – have done much better than those who invested directly in the retailer. (See chart next page.) SCAPG was created by Woolworths as a landlord for a number of its owned shopping centres in October 2012, and each Woolworths shareholder received one unit in SCAPG for every five Woolies shares they held. Given the relative performance of

TOP RETAIL STOCKS

SKAFFOLD PICKS

JB Hi-Fi (JBH); value $30
Australia’s largest home entertainment retailer, which has recently moved into whitegoods and appliances, ended the 2015 financial year in a strong cash flow position, and its Skaffold Score rises from an A2 to A1. Even though flat growth is forecast, the company is trading, at $18-$19, around 37% less than its value.

Nick Scali (NCK); less than $3.70 is a bargain
Founded more than 50 years ago, it imports 4000-plus containers of household furniture a year and last financial year it opened seven new stores. The solid performer has returned 165%, including dividends, over the past 10 years. It is highly profitable, generating a return on equity of more than 35% and Skaffold forecasts growth of around 10.5%pa. In mid-September, it was trading around $3.60

Reece Australia (REH); pay up to $28.70
The plumbing, irrigation and pipe supplier is expected to grow by about 8% over the next 12 months. Return on equity to remain stable at around 17% in the next two years. Its share price trended higher through the latest correction, which means you can’t pick it up for a bargain.

CLIME ASSET MANAGEMENT PICKS

Woolworths (WOW); forecast value $29.24
Woolworths has been challenged by rival Coles and discounters such as Aldi and Costco but Clime remains positive on its long-term outlook. Trading below forecast value (at about $25) and also offers a healthy 5.5% dividend yield, fully franked.

Wesfarmers (WES); forecast value about $40
Wesfarmers has been one of the Australian market’s outstanding growth stocks. Supermarket chain Coles accounts for close to 50% of group sales and is the major valuation driver of the stock. It offers a 5.3% yield, fully franked. Wesfarmers has a strong track record and management and Clime has been eyeing the stock at below $40; in mid-September it was just under.

Dick Smith (DSH); forecast value $2.23
The consumer electronics retailer is one of Australia’s best-known brands. Its shares have been heavily punished lately and, at about $1.40 in mid-September, the stock is trading significantly below our current valuation of $2.23. Dick Smith also has a forecast dividend yield of 7.8%, fully franked.

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the two companies, let's hope they held on to them! In the year to June 2015, SCAPG increased net profit by 34.7% and lifted its dividend by 3.6% to 11.4¢ a share.

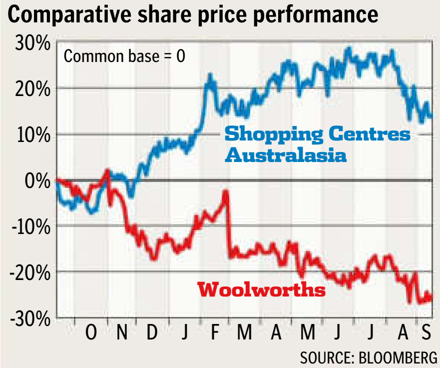
Bell says he would rather invest in a landlord with overseas exposure, like Westfield Corp, than a department store like Myer, "which is having a tough time figuring out a sustainable solution to the consumer preferences to shop in specialty stores, particularly as more overseas brands open for business in Australia".

And Scentre Group has provided investors with a far better return in its first year than Myer, which is a tenant in many of its centres. (See chart.) Scentre was spun out of Westfield in June 2014 and owns 14 of the 20 biggest and most profitable shopping centres across the country. Its recent half-year report showed that almost 20% of sales were derived from its movie theatres and technology was the second-highest contributor to the $1.09 billion sales of the period. Specialty sales rose 6.1% but the sales of traditional anchor tenants – supermarkets, department stores and discount department stores – recorded only an average 2% rise.

How long A-REITs, which have been caught up in the investor rush for yield, can perform strongly is open to debate. Over the year to August 2015, the sector's performance was up 14.2%, as measured by the S&P/ASX 300 Property Trust Accumulation Index. It has also done well over three years (16.8%pa) and five years (13.5%pa) but its six-month performance, at -2.9%, shows a downward trend. Predictions of 6% to 9% growth over the next few years, with most of that coming from yield not price rises, are not uncommon among the experts. ***M***

The author owns shares in some of companies included in this article.

Comparative share price performance



THE UNLISTED ALTERNATIVE

Syndicates that invest in retail property assets provide investors with a purer exposure to property than A-REITs. They also provide relative certainty, with regular income payments, which suit investors and DIY super funds looking for income.

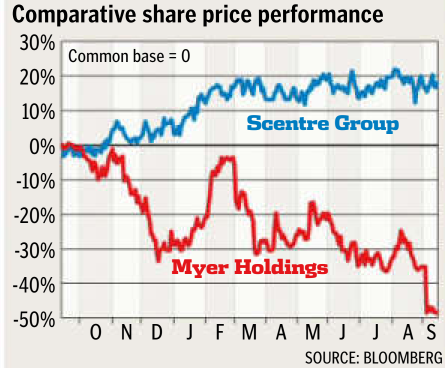
Unlisted property has a low correlation to other asset classes, including equities. Its inclusion in an overall portfolio will usually reduce an investor's risk profile. Overall, syndicates are gaining popularity as the search for yield continues and those from reliable managers are usually snapped up.

The APN Convenience Retail Fund, expected to open this month to investors with a minimum of $20,000, will focus on retail assets that provide products people have to have, such as groceries and petrol, rather than those they like to have, says Tim Slattery, APN executive director.

The eight-year-term fund aims to provide an attractive, stable distribution yield of 7%-7.5% paid monthly, Slattery says. Its seed assets comprise three new properties in NSW and Queensland which have national anchor tenants such as Woolworths, Shell and 7-Eleven. Importantly they provide long leases, with a WALE (weighted average lease expiry) of 10-plus years. "With lots of weakness in the economy, longer lease terms offer certainty for investors," Slattery says.

The syndicate, which initially seeks at least $35 million, to grow up to $150 million over three years, will look for a geographic spread of assets in strong population growth areas. It will have target gearing of 40% and Slattery expects management fees to be around 0.8% to 0.9%.

Comparative share price performance



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Useful numbers and websites

Australian Communications & Media Authority
1300 850 115
www.acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
www.accc.gov.au

Australian Securities and Investments Commission (ASIC)
Local call: 1300 300 630
www.asic.gov.au

Australian Securities Exchange
131 279
www.asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
www.superannuation.asn.au

CPA Australia
Listing of accountants
1300 737 373
www.cpaaustralia.com.au

Credit & Insurance Ombudsman Service
Financial complaints
1800 138 422
www.cio.org.au

Do Not Call Register
If you want to reduce telemarketing calls
1300 792 958
www.donotcall.gov.au

D&B
For a copy of your credit report
1300 734 806
www.dnb.com.au

Fair trading/consumer affairs
ACT (02) 6207 3000
NSW 133 220
NT 1800 019 319
QLD 137 468
SA 131 882
TAS 1300 654 499
VIC 1300 558 181
WA 1300 304 054

Financial Counsellors
1800 007 007
www.financialcounsellingaustralia.org.au

Financial Ombudsman Service
Financial disputes
free call: 1300 780 808
www.fos.org.au

Financial Planning Association
Listing of financial advisers
Call: 1300 626 393
www.fpa.asn.au

Human Services
Formerly Centrelink
Families: 136 150
Pension advice: 132 300
www.humanservices.gov.au

Legal Aid advice (free)
ACT 1300 654 314
NT 1800 019 343
NSW 1300 888 529
QLD 1300 651 188
SA 1300 366 424
TAS 1300 366 611
VIC 1300 792 387
WA 1300 650 579

My Credit File
For a copy of your credit report
Call: 1300 762 207
www.mycreditfile.com.au

Seniors Card
ACT 02 6282 3777
WA 08 6551 8800
SA 1800 819 961
NT 1800 441 489
NSW 137 788
TAS 1300 135 513
VIC 1300 797 210
QLD 137 468
www.australia.gov.au/content/seniors-card

Superannuation Complaints Tribunal
Super complaints
1300 884 114
www.sct.gov.au

Super Seeker
Track down lost super
132 865
www.ato.gov.au/superseeker

Tax Office Super infoline
Call: 131 020
www.ato.gov.au

Telecommunications Ombudsman
1800 062 058
www.tio.com.au

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ESTATE PLANNING

Bonds with benefits

Greg Bird
National business development manager, Lifeplan

Investment bonds can quickly and effectively transfer wealth between generations, making them effective for estate planning. Investors can nominate beneficiaries within the account, including charities, to receive the proceeds tax free upon the investor's death, irrespective of how long the investment has been in place.

Investment bonds are generally considered to sit outside the deceased's will, so they are not subject to the delays associated with probate, and are very difficult – if not impossible – to successfully challenge. The modern breed of investment bonds have an estate planning feature where the tax-free proceeds upon death can be utilised to create a deferred lump sum, an income stream, or a mix of both for any of the respective beneficiaries. Other bonds would automatically be redeemed when the investor dies, and the lump sum paid to beneficiaries.

For example, grandparents who would like to leave money to a teenage grandchild, but are worried they are too young to use the money sensibly, could instead set up an investment bond that pays the grandchild an income for, say, five years. They can then receive any remaining balance as a lump sum when they are in their 20s.

Investment bonds may also suit anyone who has a child who will require medical support or assistance for the rest of their life and would like to ensure they have a regular and reliable income.

SMAs catch on

The gap between direct and indirect investing is becoming increasingly blurred, as research shows record growth in the use of separately managed accounts (SMAs). Investment strategy group JBWere recently launched a white paper on the evolution of SMAs, revealing that 20% of financial planners now use them as part of a client's investment portfolio.

SMAs, like managed funds, are controlled by a fund manager, which charges a management fee. But unlike managed funds, SMAs are not pooled investment vehicles – the investor directly owns the underlying securities in the model portfolio.

Many financial planners believe the self-managed super fund (SMSF) sector – which currently holds just under a third, or about $193 billion, of its total assets in direct equities – would be better off investing in SMAs.

JBWere says SMAs are most appropriate for the "average" SMSF, which has a balance of around $500,000. SMAs are more tax-friendly than managed funds, allowing an investor to minimise capital gains tax, and are more convenient.

Due to the lower administrative burden on planners, their fees for handling SMA investment are lower, which the report says should also appeal to SMSFs. STEPH NASH

Where to invest $5000

A listed investment company (LIC) is an ideal way for investors of all sizes to gain exposure to the sharemarket through a single investment. QVE Equities is an LIC that focuses exclusively on stocks outside the top 20 stocks on the ASX. Investors are generally aware of larger ASX companies, and tend to invest directly in these. However there are many good-quality companies outside the top 20 that can provide investors with diversification and the opportunity to generate capital appreciation over time, whilst also generating a sustainable and growing dividend stream.

SIMON CONN, senior portfolio manager, IML, which manages QVE.

FACT FILE: QVE Equities

- ASX code: QVE
- Start date: 22 Aug 2014
- Net assets: **$202.6m**
- Estimated fee: **1.125%**
- Annual dividend yield: **1.98%**
- Average ASX dividend yield: **4.8%**

Source: Morningstar as at 31-Aug-15; Dividend yields, ASX, 11-Sep-15

INSIDE INVESTING THIS MONTH

Why I took the plunge

Ross Greenwood explains how he assessed the risks before buying ANZ shares

LAST MONTH I DID AN UNUSUAL thing (for me). I bought some shares. I know that should be normal for someone who watches the sharemarket every day but I've discovered I do not have the time to be a constant trader. The years have taught me that – as when buying property – every day is not a good day to climb on board.

And I know I have confessed this before, but I have also discovered that I am a better buyer of assets than a seller. It doesn't matter if it's houses, apartments, cars or shares, I am better at spotting value to buy rather than an opportunity for selling. Which, I understand, is a fault. I tend to hang on to assets too long and I don't "recycle" them as often as I should (to borrow a term from modern political-speak).

But even I understood that when ANZ bank shares yielded 6.8% (before franking credits are taken into account) – compared with the 2.5% it would offer me on a deposit account or the 4.5% I could borrow at for a home loan – it was a great deal.

I understood the risks. As I see it – and others will see it differently – the risks are: 1. The bank cuts its dividend. I rate this a low risk. There is probably a better chance the dividend will be increased. 2. The bank will need to raise more capital. Again, a low risk as it has just finished a capital raising. 3. The shares fall.

Well, actually, I don't care about this, provided the dividend stays put or rises.

And that's the trick of buying shares: identify the risks and work out if you can cope with them.

There is a chance, of course, that eventually interest rates will rise in Australia. This will push up the yield of all assets, including property and high-yielding shares, including the banks, Telstra, Medibank Private and others. But even here I rationalise: if interest rates rise, it will be in response to better economic activity, which will have benefited bank profits and dividends. More likely than not, our interest rates will not rise for 18 months, perhaps longer, and so I have plenty of time to ponder my next move.

I will also say that I was poised to buy oil shares when the oil price hit $US38 a barrel but I missed my chance. Others didn't, and Woodside launched an $11 billion takeover bid (unaccepted at time of writing) for Papua New Guinea oil and gas player Oil Search (one of my preferred plays too).

I also keep watching shares in BHP Billiton but here the risks (to me) are less easy to rationalise. I understand that even if China grows at 6% (not the 7% originally forecast for next year) it will still be one of the fastest-growing major nations on Earth. It will demand energy and food and services well into the future. (Which is why abandoning the free trade agreement is complete lunacy. As former ALP federal president Warren Mundine said, we are arguing about conditions on jobs that don't even exist yet.)

But to BHP. Since it decided on a "progressive" dividend policy (ie, to pay more of the profits to shareholders) it seems it has taken on an altogether different style: more farmer, less hunter. As someone who has grown up used to BHP's dividend yield at 2% or less – because the board considered it could make good returns on the retained capital – I have been more than surprised to see its yield at more than 10% in recent weeks.

I have enjoyed buying BHP over the years during market lulls. Part of the reason is a quote, from a former BHP chief executive, that always stays with me: "You can replace a factory but you can't replace an ore body." In other words, a factory over time will depreciate or need replenishment. And though commodity prices might make an ore body more or less profitable, you cannot always easily replace it with another.

So I go back to my basic risk assessment: could BHP cut its dividend? Sadly my view, right or wrong, is that it might in the future, especially if commodity prices remain weak. It might also need to preserve some capital in the future as well – to prevent a capital raising – which could see a change to that progressive dividend policy. And all that could see its share price lower – even though I know its assets are of the highest quality. So the answer was a "no BHP" for now but with a watching brief. There will be a time (it might even be now, who knows, but the risks tipped my balance).

My fundamental long-term view is that a growing global population, from 7 billion to 9 billion people, will need more energy, more food and more minerals. It will also need better healthcare and financial services. This is the basis for my optimism for long-term investing.

As for the selling part of this equation: as I said, I know I'm not so good at that.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News *host.*

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A bear in there

CHRISTOPHER NIELSEN

Trustees are struggling to balance risk and return, writes Vita Palestrant

AUGUST'S SHAREMARKET ROUT will have left self-managed super fund investors feeling vindicated for stockpiling cash. SMSFs are often derided for being too defensive and holding too much of their savings in cash.

Two surveys, conducted between November 2014 and April this year, showed SMSFs remained unconvinced and bearish in the face of a rising market, with one survey noting their "level of concern in relation to investments increased".

Graeme Colley, the director of technical and professional standards at the SMSF Professionals' Association of Australia, says SMSF investors tend to be astute. "Trustees are very bearish at the moment. They tend to be 90 days ahead of the market compared to other investors. That not only comes out in our own research but also in research published by Investment Trends."

Vanguard's Investment Trends annual survey of almost 4000 trustees and 501 advisers, conducted in March-April, reported that SMSFs were sitting on excess cash because of "a poor market outlook". It found they had adopted defensive strategies in making asset allocations in the previous year. "In line with this trend, SMSFs stockpiled excess cash in their portfolios. Total cash is estimated to have increased from \$146 billion to \$160 billion, with excess cash – funds that would have been invested but were not because of market uncertainty – growing from 30% to 35% within the total cash pool."

The survey found direct shares remained the dominant SMSF asset class at 41%, down slightly from 44%. The average number of stocks held remained steady at 18 but they were heavily concentrated, with more than half represented by either resources or financial stocks.

Allocations to listed and unlisted managed funds continued to increase, growing to 18% of total assets, up from 15% last year. SMSFs cited diversification and access to international markets as the key reasons they used such funds.

Robin Bowerman, Vanguard's head of market strategy and communication, says portfolio concentration poses some risk. "However, it is positive to see investors, both advised and unadvised, increasing their diversification through vehicles like managed funds and ETFs."

CoreData's annual survey of SMSFs, made in November-December for the SMSF Association and nabtrade, also showed SMSF used funds to diversify, especially to international shares. *Intimate with Self-Managed Superannuation* showed trustees were wrestling with record low interest rates and many were looking to put some cash in fixed interest and bonds. It found the average proportion of cash held by SMSFs had fallen from 20% in 2013 to 16%. "On the other hand, the average allocation to Australian equities has risen since 2013 from 36% to 43%," it said.

It noted a slight decline in the average allocation to residential property and a rise for international equities. "While trustees continue to most commonly cite Australian equities as a likely destination for their cash, international equities and bonds are likely to garner greater interest among SMSF trustees in the near future." The report said the falling Australian dollar and its poor outlook were likely to have contributed to the popularity of international equities.

"While trustees recognise that holding cash is one way to de-risk their SMSF portfolio, they are also seeking to move funds out of cash to other asset classes that are inherently more risky in a bid to achieve better returns than those currently offered by cash. These findings suggest that trustees are trying to balance their investment risk and return objectives."

SMSF investors are caught between a rock and a hard place, says Colley. "Many SMSFs have been leaving their savings in cash because they weren't seeing shares and property as good investments. Many saw them as overvalued."

But low interest rates are forcing them to reallocate their cash to term deposits, online saving accounts and bonds, depending on where they see interest rates heading. "They are being very careful to make sure they are getting better-value investments."

Vita Palestrant was editor of The Sydney Morning Herald *and* Age's *Money section and worked on major newspapers overseas.*

STASH THE CASH

PROVIDER	ACCOUNT	BASE RATE
TOP 5 SMSF SAVINGS ACCOUNTS (\$50,000)		
ADCU	DIY Super Saver	3.01%
BankVic	SMSF Saver	2.95%
FCCS CU	Superfund Maximiser	2.90%
NAB	Business Cash Maximiser	2.80%
RaboDirect	DIY Super Saver	2.75%
TOP 5 TERM DEPOSITS (\$50,000 for 12 months)		
Teachers Mutual Bank		3.05%
Unibank		3.05%
BOQ		2.95%
MyState		2.95%
UBank		2.95%

Source: Canstar as at 25-Aug-15, ranked by rate.

The bigger the better

Sam Henderson explains how to maximise your age pension and other benefits

AROUND 80% OF RETIREES WILL qualify for at least a part age pension. You've worked hard, paid your taxes and now you want a bit back from the government. Well, it's only fair! Let's have a look at some ways to maximise your pension.

The government pays about 10% of all of its $450 billion or so of tax revenue on pensions, so look out for future changes if we keep running a massive budget deficit, currently about $50 billion and likely to blow out as our population ages. Being a self-funded or partially self-funded retiree will protect your standard of living.

Income and assets tests

The full age pension for a single is $22,365 a year and for a couple $33,716pa. The upper limit for the assets test is currently $1,156,500 for a home-owning couple and $1,305,000 for other couples. For singles, it is $779,000 for a home owner and $928,000 for others. If your assets, excluding your house, are higher, you may not qualify.

If your annual income is more than $47,382 (single) or $74,921 (couple), you may also be ineligible. Below these thresholds, you may be eligible for a part pension.

The pension qualifying age has started to rise, as the life expectancy and health of older people have increased markedly. There has been discussion about lifting the age even further, from 67 to 70, but as yet no legislation has been introduced. If governments keep producing $50 billion deficits, it's a real probability.

WHEN YOU ARE ELIGIBLE

DATE OF BIRTH	PENSION QUALIFYING AGE
Before 1-Jul-52	65
1-Jul-52 to 31-Dec-53	65½
1-Jan-54 to 30-Jun-55	66
1-Jul-55 to 31-Dec-56	66½
After 1-Jan-57	67

Source: www.humanservices.gov.au

Minimise assets

A poorly understood strategy, but very commonly used in my office, is to avoid having your super or that of your partner included in the assets test. This works for longer the bigger the discrepancy of age is between partners.

If you are under age pension age and your super is in accumulation mode, it will not be counted as an asset but in pension mode it is included. So if one partner is age pension age and the other is younger, we can maximise the older one's age pension by keeping the younger partner's super in accumulation mode.

The younger partner can still make lump-sum withdrawals from super if needed, or you can set up an account-based pension in the older partner's name to provide income from super and an income from Centrelink.

You can then boost the age pension benefit by withdrawing super from the older partner's fund and contributing it to the younger partner's fund (possibly as a tax-free non-concessional contribution). This also works for people on disability support pensions until they attain age pension age.

You can give away a money to reduce the impact of the assets test but you will be limited to $10,000 a year or a maximum of $30,000 over a five-year period. Any more than $30,000 given away will be included in the assets test. So if you're five years from age pension age, it may be a good time to help the kids get into a house.

Your house is presently excluded from the assets test. So you can upgrade your house and lower your assets to receive more age pension. You can downsize later or take a reverse mortgage (not highly recommended) if you need cash.

You can just blow it – spend the kids' inheritance (SKI)! An article a few months ago reported about a woman who was thinking of dropping $100,000 on a boat trip to Alaska to lower her assets and receive more age pension. The strategy is perfectly legitimate, albeit a little cavalier.

Seniors health card

An issue for self-funded retirees is the Commonwealth seniors health card, whose holders qualify for discounts on pharmaceuticals and some travel and household costs and bulk-billed medical services. (The card for age pensioners has more benefits.) The seniors health card is subject to an income test but not an assets test. The income threshold for a single is $51,500, for a couple $82,400. Income includes deemed annual account-based pension income from January 1, 2015.

Help from Centrelink

The Centrelink people to talk to are financial information service officers (FISOs). They hold information seminars that can be booked online. Call 132 300 or see humanservices.gov.au.

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell. He hosts Sky Business News program Your Money Your Call – Retirement *and has written three best-selling books.*

Slice of American pie

STORY PAM WALKLEY

Underpinned by a growing economy, US markets can provide better value and greater variety – the second instalment of a three-part series identifies the opportunities

THE OUTLOOK FOR growth in the US is more positive after a slowdown early in the year. Its economy is ticking along steadily and has finally said farewell to the effects of the GFC. The drivers are relatively strong consumer spending and confidence, boosted in turn by falling fuel prices, rising house prices and share prices and, now, rising wages.

So is it time for Aussie investors to seriously consider investing in the US sharemarket? It accounts for more than 50% of global equities as measured by overall market capitalisation, reports researcher Morningstar.

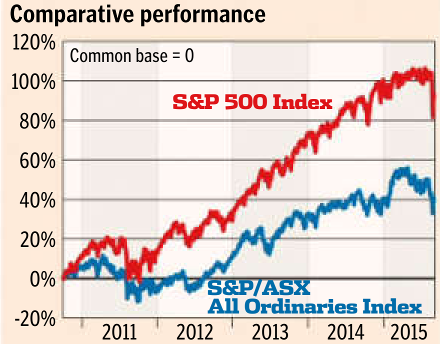
One cloud on the horizon is the imminent threat of rising interest rates. US rates were cut drastically in several downward moves from 4.75% in September 2007 to 0.25% in December 2008 as the GFC bit. And the official rate still sits at that figure.

The US central bank, the US Federal Reserve (the Fed) appears to be on track to start raising interest rates later this year, which is likely to cause continued share market volatility. It may even have raised rates by the time you read this article. The market jitters in August and early September were partly due to this but owed more to a big slowdown in Chinese growth. On the plus side, the Fed has gone out of its way to assure investors that the rises will be slow and could be delayed if the China situation continues to play havoc with markets.

Another cloud is the high US dollar, says Platinum Asset Management chief investment officer Kerr Neilson, whose company runs successful offshore funds. He told a recent investor briefing that the high $US makes it hard for some US companies to increase earnings, as about 45% of the revenue of S&P 500 companies is generated outside the US.

Describing the US market as "the locomotive of the moment", Neilson said it was a mature bull market, having risen for more than six years. He posed the question whether it was now topping out.

Comparative performance



SOURCE: BLOOMBERG

Russ Koesterich, global chief investment strategist for BlackRock, which manages iShares exchange traded funds (ETFs), agrees that the high $US is putting pressure on company earnings and could continue to do so. "The second-quarter US earning season was not the disaster some had expected, but it was far from inspiring," Koesterich writes in BlackRock's August *Investment Directions*. "Most companies beat reduced earnings expectations, yet a surprising number fell short in revenue growth, often citing the strong US dollar and plummeting commodity prices as a drag on results."

The tables on US managed funds and US ETFs available in Australia (see page 72) show those that have been around for five years-plus have all produced returns ranging from 18% to 22% a year.

Despite this, Vanessa Gilbert, a founder of stock researcher Skaffold, says US shares

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haven't risen as far above valuations as Aussie stocks have. "For investors seeking value, there is very little choice here in Australia when compared with the US. The valuation growth of US stocks has outstripped their Australian counterparts, and that market doesn't have hundreds of thousands of investors pushing up the prices of income stocks, unlike Australia."

Skaffold, which uses customised software to evaluate US, Australian and other international stocks, rated 27 of the top 50 stocks (54%) in the US as "cheap" in late August, meaning the share price is less than the estimated value of the business. This compares with Australia, where two of the top six stocks (33%) are cheap. (See Skaffold's top three US stock picks.)

"As with local stocks, Skaffold rates every stock from A1 (the best) through to C5, so it's easy to spot stocks with top-notch fundamentals and avoid the basket cases that are loaded with debt and don't turn a profit," Gilbert says. "A valuation is estimated for every stock. When you know what a company is worth, you have a reference point as to what price you should pay for the shares."

A good reason for investing in the US is that there are more top stocks available, Gilbert says. Of the 1771 ASX-listed stocks covered by Skaffold, only six (0.3%) make the cut to be rated as top stocks. Contrast this with the US, where 50 out of 669 (7.5%) US stocks make it.

And there are businesses in the US that simply don't exist in Australia, says Gilbert, including the world's biggest IT companies such as Apple, Oracle and Cisco, global brands such as Tiffany & Co, Foot Locker and Jones Lang LaSalle, and global healthcare stocks such as Biogen and Varian.

Robin Bowerman, the principal of market strategy and communications at Vanguard Australia, agrees the US provides far more depth and diversity than the local market.

Two sectors, financials and miners, dominate locally, says Bowerman, but the US market is much broader. The MSCI USA, which Vanguard's US Total Market Shares ETF (VTS) tracks,

THREE TOP US STOCK BUYS

BED, BATH & BEYOND (BBBY)
RATED A2 BY SKAFFOLD

- Best value top stock in the US. Currently trading at a 46% discount (value compared with share price) and a price-earnings (PE) ratio of 12.
- The most profitable of the top stocks. While return on equity is forecast to be slightly lower this year, BBBY's average ROE forecast for the next three years is 25%.
- Cash flows have been higher than reported profits consistently.
- BBBY's products span linen and homewares, furniture, Christmas, baby and discount health and beauty.

SKYWORKS SOLUTIONS (SWKS)
RATED A1 BY SKAFFOLD

- 12-month earnings growth of more than 100% is forecast.
- Trading at a 21% discount and PE ratio of 17.
- Manufacturer of high-performance analog semiconductors servicing any market you can think of (aerospace, defence, automotive, computing, electronics, wearables, mobile devices, medicals etc).
- Named as one the best-managed US companies by *Forbes* magazine and among *The Boston Globe*'s top places to work.
- Its customers include Apple, Samsung, LG, Cisco, General Electric and Phillips.

SOLARWINDS (SWI)
RATED A2 BY SKAFFOLD

- Impressive 12-month earnings growth forecast of 75%, then value growth of around 7%pa.
- Trading at a slight value discount of 7%. PE ratio of 20.5.
- Outstanding cash flow and enough cash in the bank to repay its interest bill more than 560 times.
- Forecast to produce ROE of more than 20% over the next two years.
- A software and programming company whose services include network and system management, IT security and database management.
- Is a member of the Cisco Technology Developer Program.

SOURCE: SKAFFOLD, AUGUST 21, 2015

PROPERTY BOUNCES BACK

Remember when housing in the US was touted as the investment bargain of the century? That was just after the GFC, when home foreclosures were rife and values in some areas had tumbled up to 70%. Double-digit rental returns were normal. But the risks in US property were very high, especially for offshore investors.

Move on seven years and circumstances are quite different – US house prices are in a new growth cycle. The S&P/Case-Shiller 20-City Composite Home Price Index, which generated a 0.4%pa loss over the past decade, has turned around to produce a positive 9.2%pa return over the three years to June 30. The index measures the value of residential real estate in 20 major metropolitan areas.

Another positive sign is that foreclosures are down 63% from their 2011 peak, reports CoreLogic. And US investors have once more embraced real estate as a favourite, with 27% saying property is the best place for money they would not need for at least a decade, says a July Bankrate.com survey of 1000 investors; cash was second (23%) and shares third (17%).

For Australian investors, US housing returns still look much better than those available in many local markets, but the risks are higher and the process of buying more complicated.

A number of companies, including American Properties (americanproperties.com.au), claim to be able to make buying property in the US relatively simple for investors willing to pay a fee.

"US house prices are in the early stages of a new growth cycle, after having declined steadily between 2007 and 2012. On the other hand, Australian house prices are at record highs, at the peak of a two-decade-long bull run, and in dangerous bubble territory," says part of the pitch on the company's website.

Among the examples American Properties lists as typical is a four-bedroom, two-bathroom home in Kansas City, Missouri. It's priced at $99,000 with a net yield of 8.8%.

FUNDS FOCUSED ON THE UNITED STATES

	APIR/ ASX CODE	LAUNCH/ LISTING DATE	FEE (%PA)	RETURNS (%PA) 1 YEAR	3 YEAR	5 YEAR
UNLISTED MANAGED FUNDS						
BT American Share Retail	BTA0023AU	01-Jun-86	1.54%	31.00%	27.02%	18.75%
BT American Share Wholesale	BTA0100AU	01-Jul-99	1.00%	32.35%	28.21%	19.97%
THB US Micro Cap[1]	ETL0413AU	01-Oct-14	1.25%			
EXCHANGE TRADED FUNDS						
ANZ ETFS S&P 500 High Yield Low Vol	ZYUS	10-Jun-15	0.35%			
BetaShares FTSE RAFI US 1000	QUS	17-Dec-14	0.30%			
BetaShares NASDAQ 100	NDQ	26-May-15	0.38%			
iShares Core S&P 500	IVV	15-May-00	0.07%	32.55%	29.55%	21.16%
iShares Core S&P Mid-Cap	IJH	10-Oct-07	0.14%	31.87%	30.39%	21.39%
iShares Core S&P Small-Cap	IJR	10-Oct-07	0.14%	34.26%	30.64%	22.75%
iShares Russell 2000	IRU	22-May-00	0.20%	32.10%	29.44%	20.93%
iShares S&P 500 AUD Hedged	IHVV	15-Dec-14	0.13%			
Market Vectors Morningstar Wide Moat	MOAT	24-Jun-15	0.49%			
SPDR® S&P 500	SPY	13-Oct-14	0.09%			
UBS IQ MSCI USA Ethical	UBU	18-Feb-15	0.20%			
Vanguard US Total Market Shares	VTS	12-May-09	0.05%	31.74%	29.72%	21.35%

Source: Morningstar, as at 31-Aug-15. [1]Minimum investment $A250,000.

represents more than 3000 holdings and is well spread across US sectors and market cap segments, Bowerman says. The minimum investment is $500 (the minimum ASX parcel) at a cost of only 0.05%, making it the cheapest ETF on the ASX, says Morningstar. Bowerman says 10 to 15 years ago even large institutional investors would have struggled to buy into the US market at a cost as low as this.

There are 12 ASX-listed ETFs that cover segments of the US stockmarket (see table). The two big ETFs are the Vanguard one and the iShares Core S&P 500 AU (IVV), both of which have bronze ratings from Morningstar. Both give exposure to major companies, including Apple, ExxonMobil, Microsoft, Johnson & Johnson, Wells Fargo and General Electric.

"It's hard to go past VTS for broad US market exposure," Morningstar analyst Tim Wong wrote in December 2014. "Vanguard's ETF experience, low fees and broad diversification make it hard for us to fault VTS as a vehicle for US exposure."

While the iShares ETF tracks the narrower S&P 500 Index, its returns have not differed markedly from those of Vanguard's fund. "The US large-cap segment is one of the hardest for active fund managers to beat the benchmark, so the case for passive exposure is strong," wrote Wong in December. "IVV's low fee, liquidity and broad diversification coupled with iShares' experience make this a superior route to US equity exposure."

There are only three managed funds offering access to North American shares exclusively. But there are many more diversified and international funds, such as Platinum's International Health Care, which has 26.9% in US stocks, and Platinum's International Technology, which has 29.2% in US stocks.

The BT American Share Fund, which invests mainly in the US, was established in 1986 and has weathered the GFC, with the retail version producing an average 9.45% annual return since inception. Its more recent performance is in line with the US ETFs, although the retail version of the fund's performance has lagged. It aims to beat the S&P 500 (in Australian dollars) over the medium to long term.

How much to invest in US shares must be an individual decision. Vanguard's model portfolio strategies suggest 7% in a conservative portfolio, 12% balanced, 17% growth and 22% high growth. These are just less than half of the total allocations suggested for investment in international equities for each strategy. ***M***

The author holds shares in ETFs mentioned.

NEXT MONTH: Europe, including the UK.

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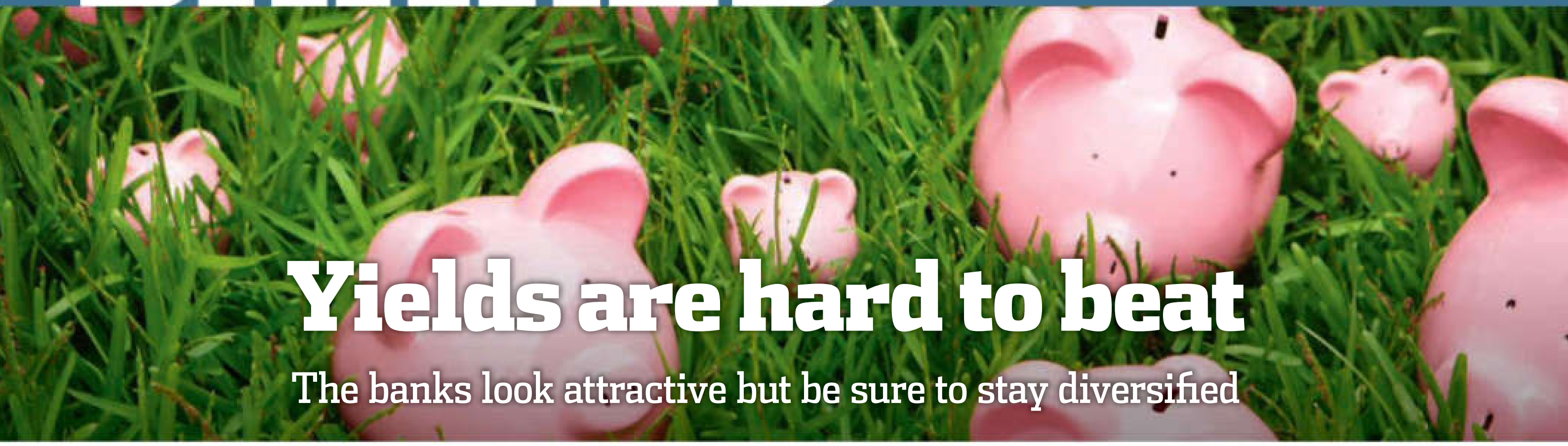


Yields are hard to beat

The banks look attractive but be sure to stay diversified

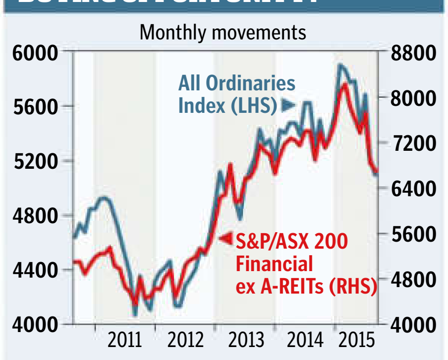
Graham Harman
Senior investment strategist, Russell Investments

Australian bank shares have been solid performers in recent decades. They've delivered an impressive income stream and shrugged off the challenges of the GFC with an ease that was the envy of much of the world. However, between March 2015 and September 2015 they lost 25% of their value and investors may well ask – is the miracle over?

The good news is that, following the falls of the past six months, bank dividend yields are looking more attractive. At a rate currently more than 6% – even before considering the value of the franking credits – yields are now well ahead of the rapidly dwindling returns on, for example, term deposits. However, a major main caution to bear in mind is that banks are highly leveraged investments, with gearing ratios of 15 times, compared with one to two times for most other companies. Also their bad debt experience has been tracking at unusually low levels in recent years and any major problems – for example, in the housing market – could well cause a reversal in that run of good fortune.

Despite this year's sharemarket volatility, the big four banks still make up a significant proportion of the Australian sharemarket (at nearly 30% of the All Ordinaries Index). So, as with all investment, prudent diversification should be applied to your exposure to bank shares. Invest in them by all means, but don't let them dominate your portfolio.

BUYING OPPORTUNITY?



SOURCE: ASX

Spice up your portfolio

Fabiola Gibson
First vice-president, financial adviser, Morgan Stanley Wealth Management

Within the ASX, we have focused on three investment themes: defensives, global leaders and yield with growth.

Defensive stocks are more likely to outperform in a risk-off environment. Transurban (ASX: TCL) is one of our preferred stocks in the transport infrastructure space. It has a large suite of road assets in Australia, high free cash flow and an attractive growth profile to support growth in dividends. We rate Transurban "equal weight" with a price target of $10.21 (at the time of writing in early September it was around $9.75).

Global leaders should benefit from stronger global growth and continued weakness in the Australian dollar. A stock within this theme is Corporate Travel (CTD), which provides travel management solutions to the corporate market in Australia, New Zealand, Asia, North America and Europe. Increased corporate travel demand, increased market share, acquisitions and a weakening $A should provide earnings growth in upcoming years. We rate Corporate Travel as "overweight" with a price target of $14 (about $10.50).

AMP (AMP) is an example of a stock that has both yield and growth characteristics. It is the purest large-scale play on the wealth theme. In its recent result, AMP executed on its new operating model and laid the platform for further growth, especially within its superannuation offering and a joint venture with China Life. This should support increases in dividends. We rate AMP "overweight" with a price target of $7.20 (about $5.90).

INSIDE SHARES THIS MONTH

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Positive thinking

Dividends seem secure despite pressure on earnings, writes Craig James

EVERY SIX MONTHS, AUSTRALIA'S listed companies lift the lid on their financial accounts. Clearly this is an important time to see what shape companies are in and how they have performed in recent months. Some companies also provide useful commentary on the results and connect with media and analysts via phone, webcam or in person.

The focus in the latest profit-reporting season was on those companies reporting their results for the year to June. The large majority of ASX 200 companies report for the year to June, around 12% have a December reporting year (report half-year results to June) and about 30 have a different reporting period.

So how did companies perform? Well, usually earnings seasons tend to be characterised by a central theme, or themes but that wasn't the case with the earnings season that concluded at the end of February. And that has also been the case with the latest earnings season. Companies have not generally been slashing costs, although resource companies in particular have certainly been aiming at improving productivity and efficiency.

Some companies identified significant "impairment charges" or write-downs and provisions in their profit-and-loss accounts that affected bottom lines: WorleyParsons, Seven Group, Seven West Media, Beach Energy, UGL and South32. Companies that depend on activity in the resources sector highlighted the tough operating conditions: UGL, Boart Longyear and Arrium.

The housing construction boom has been positive for many: Sunland, Cedar Woods and Folkestone. There were "turnaround" stories, notably that of Qantas, which was previewed at the December interim earnings report.

There were a few standout results such as those of Aurizon, Austal (not in the ASX 200) and Newcrest.

Companies are competing for the affection of shareholders

Outlook statements will always vary from company to company and industry to industry. Probably on the back of a better economy in the first half of 2015, companies were generally positive on the period ahead. Interestingly, optimism was shown by some companies that reported "challenging" conditions in the past year: Coca-Cola Amatil, Cabcharge and ARB. Some companies were more cautious (Seven Group). Some noted mixed prospects ahead (WorleyParsons). And both Transpacific and Pacific Brands expect further challenging conditions.

It is clear companies are still focused on lifting or maintaining dividends. But there is no sense they have blinkers on and a single-minded determination to pay dividends at all costs. Rather companies are competing for the affection of current and prospective shareholders.

Cash levels are still healthy, giving companies scope to maintain dividends. But reinvestment of earnings back into the business is not being shunned. Certainly conservatism continues. However the results on dividend payments are not markedly out of kilter with overall financial performances.

So what about the overall results? Well, focusing on those companies reporting for the full year, it's worth noting a sharp lift in the variability of bottom-line earnings. Stripping out "outliers", CommSec estimates that underlying aggregate revenues rose by 2%, expenses rose by 2.2% and aggregate profits fell by 3%.

Almost 82% of those reporting full-year earnings reported a profit – below average. But almost 61% improved their profit results – above average. And encouragingly, almost 90% paid a dividend and 85% lifted or maintained dividends.

Looking at cash levels, if you put all companies together, total cash earnings were $100.7 billion. Eight large companies have each reduced cash holdings by $1 billion or more. If these "outliers" are excluded, then aggregate cash levels actually lifted by 5.4%.

Overall, Australian companies are in strong financial shape. The main criticism is that too many companies are too comfortable with paying out dividends. And the worry is that earnings have been hard to generate in the past year and, if anything, this is likely to continue.

Craig James is chief economist at CommSec.

TAKING CHARGE

Avoid the yield trap

A stock's high dividend payout ratio could be a sign of trouble, writes Annette Sampson

WHAT'S THIS TALK ABOUT DIVIDEND SUSTAINABILITY? I'VE BEEN INVESTING IN STOCKS WITH A GOOD YIELD FOR THEIR INCOME

While the latest reporting season largely avoided nasty surprises, some investors have been questioning dividend payouts in the light of economic uncertainty.

THE PAYOUT PUZZLE

Part of the concern is that while companies have increased earnings in recent years, they have also been "funding" dividends by increasing dividend payout ratios. This is the proportion of their earnings that they pay out to shareholders in dividends. Australia, largely thanks to dividend imputation, has long had a higher dividend payout ratio than many overseas countries. But the overall ratio for the local market has risen substantially in recent years – from about 55% four years ago to around 73% today.

Shareholders like yield and, to keep shareholders happy, companies have been dipping into the kitty to increase dividends. There are concerns that some companies have been funding dividend growth through strategies that may jeopardise their longer-term earnings – such as cost-cutting, selling assets and borrowing. Others may simply not be able to maintain their dividends if earnings fall. This has been cited as a particular concern for resource companies, given the big falls in commodity prices.

CommSec reports that payout ratios for popular yield stocks such as the banks and Telstra have hit levels of about 70% or more. Some, notably National Australia Bank's and Stockland Group's, have reached more than 90%. If profits were to fall, that doesn't leave much wriggle room.

DO: Check out payout ratios when deciding whether to buy a high-yield stock, as well as the company's history of increasing its dividends and how. If you want to calculate the payout ratio yourself, divide its dividend per share by its earnings per share. So if Telstra has earnings per share of 34.5¢ and is paying a 30.5¢ dividend, its payout ratio is 88%.

EARNINGS ARE KEY

Morningstar's head of Asia-Pacific equity research, Joel Bloomer, says when looking for income stocks, he prefers to focus on where a company is making its money and whether it has a sustainable competitive advantage in the market. If it has an edge over its competitors, it is more likely to be able to sustain its earnings – and the ability

THE CHALLENGE

Buy shares for your kids

Do your sums to work out the best strategy, writes Maria Bekiaris

IT'S A QUESTION WE GET A LOT AT *Money* mag – how can I buy shares for my children or grandchildren? You might think it's a good idea to buy and register the shares in the child's name but many brokers don't allow this.

Australia's biggest broker, CommSec, for example, doesn't let you trade on behalf of a minor. Its website states: "You can however open an account in the name of an adult who will act as a trustee until the minor turns 18. Once the minor has turned 18, the shares can be transferred into an account in their name." As there will be no change in beneficial ownership, because the shares were always intended for the child, you shouldn't have to pay capital gains tax when that happens.

An issue that does arise, though, is who declares, and therefore pays tax on, the dividends. If all the dividends and shares are held for the child – even if you made all the investment decisions and provided the money to buy the shares – then the child is the owner of the shares and declares the dividend income and all capital gains and losses from the sale of those shares, says the ATO. As long as the child doesn't earn more than $416 in "unearned" income they won't have to pay any tax or even have to lodge a tax return. On a share yielding a 5% fully franked dividend, for example, they would have to have about $5824 worth of shares before tax is payable. If they earn more than that, the tax rate can be as high as 68%. The shares would be worth $10,400

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to increase dividends is the logical outcome of that.

How a company makes its earnings is also important. Bloomer says questions are being raised about resource stocks because of the falls in commodity prices and the big impact this can have on earnings. Some stocks that were touted as good yield plays just a few years ago, such as oil and gas producers Woodside and Santos, have been forced to cut dividends because of falling prices. Bloomer says he is less concerned about BHP Billiton and Rio, both of which are among the top resource companies in the world and can withstand a downturn.

Bloomer says companies, such as Telstra, that don't need to invest heavily in their businesses can probably afford to maintain a higher payout ratio but he warns the days of popular stocks increasing dividends by lifting the payout ratio are limited.

Banks, for example, have increased payout ratios at the same time as bad debts have fallen. But the major banks now have to raise capital and the recent reporting season suggests the trend of lower bad debts may be starting to turn. Given that the banks already pay out a high proportion of their earnings, he says this increases the chance that dividend growth will slow.

DON'T: Fall into the trap of buying a stock because it has a high yield. Quality income stocks are in high demand and your chances of finding an undiscovered gem are low. If a stock has an unusually high yield, it is generally because of questions over its future earnings and dividends.

THE GOOD NEWS

The upside, however, is that Australian companies are well aware that shareholders don't like nasty dividend shocks and most major companies try to manage their dividends to avoid this.

TAKE-OUT TIPS

- Dividend growth may slow if company earnings come under pressure.
- Investors should consider a company's capacity to lift its dividends when analysing income stocks.
- The dividend payout ratio is a good indicator of how much "wriggle room" a company has to fund future dividends, although other factors, such as cash flow and the company's capital requirements, also need to be considered.

Higher payout ratios can be a sign that companies are confident they will be able to maintain their earnings and fund their dividends, though it's still worth doing your homework.

DO: Look beyond the numbers. Wesfarmers, for example, currently has a dividend payout ratio of more than 100%. But it has excess capital and paid a special dividend and made a capital return. Next year its payout ratio will fall to a more sustainable level.

Disclosure: The author has shares in Woodside, BHP, Telstra and NAB.

Annette Sampson has written extensively on personal finance. She was The Sydney Morning Herald *personal finance editor, a former* Herald *Money section editor and* Age *columnist. She has written several books.*

if they were to break even on the tax due, taking into account the tax already paid on the dividends by the companies.

If the total franking credits are more than the tax liability for the year, you may be entitled to a refund of excess franking credits from franked dividends. In that case a child who owns shares may need to lodge an income tax return to claim a refund of any excess franking credits, says the ATO.

The higher tax rate might not worry you if you have a modest share portfolio for your child, but if you intend to build a larger one, depending on your tax bracket, you might consider putting the shares in your name. If you're a couple it should go in the lower income earner's name. That way you can limit the tax payable on the dividends. But in that case you are considered the beneficial owner and if you transfer the shares to your child when they turn 18, you will be hit with CGT. Before you buy the shares, you may benefit from getting advice from an accountant to work out the best approach.

Another option is to set up a discretionary family trust, which purchases the shares. This is really only beneficial if your personal finances are complex. Trusts can be expensive to set up and run and there's no point spending the money just so you can buy your kids a few shares.

Bank on Buffett

The high-yielding investor favourites face headwinds but they are in the sights of the 'Oracle of Omaha'

COMMONWEALTH BANK shares have fallen more than 20% since I wrote that they had triggered my "risk radar" in April. As I write, the stock is trading on a 5.9% fully franked dividend yield. Westpac shares are trading on a dividend yield of 6.2% and the more internationally focused ANZ Banking Group and National Australia Bank are trading on even higher yields.

The sharemarket is a place where it often pays to look a gift-horse in the mouth, so I've been turning over the pros and cons of these attractive-seeming stocks in my mind in recent weeks.

The positive case is fairly straightforward. Essentially, it's for more of the same conditions we've seen during the six years since the worst of the GFC. That includes a moderately growing Australian economy with unemployment remaining under control and property prices continuing to move higher. All that might be underpinned by even lower official interest rates, so the current reduction in mining income and employment would be offset by other exporters who are benefiting from the lower Australian dollar.

Putting it another way, the big banks are such integral parts of the Australian economy that their profits are inextricably linked to its overall health.

Other positives include the potential for further cost reductions. As we all conduct more of our banking transactions by phone, internet and ATM, the banks can reduce the costs associated with those expensive branches.

In the small town where I grew up, all four big banks had impressive stand-alone branches in the 1990s. Today, only Commonwealth Bank and NAB remain. Westpac has a presence within the local newsagent (a few doors down from its former stately building) and ANZ has left town altogether. That's a microcosm of a wider trend that's likely to continue.

One final positive is that, after his multibillion-dollar deal with Insurance Australia Group in June, Warren Buffett announced that he is looking to invest in the Australian sharemarket. "I would say there is a good chance that five years from now, we will have bought one or more positions in Australian banks," Buffett said at the time.

The banks certainly seem to tick most of the boxes Buffett looks to check off. They are dominant competitors in their markets, providing them a huge advantage over their competitors. They have well-known brands and long histories and it's an industry Buffett knows well. In the end, I think it will come down to price.

If Buffett finds the price attractive enough, I'm confident the other aspects would all be to his liking. And if an announcement comes

You can imagine that the **impact on the share price** would be quite positive as copycats follow his lead

that Buffett has taken a position in one or more of the banks, you can imagine that the impact on the share price would be quite positive as there's always a gaggle of copycats looking to follow the great investor into any of his ventures.

Aussie dream is central

So what might go wrong? Let's start with the biggest potential problems.

The major one is the potential for a downturn in the Australian property market. Some people believe a property downturn is impossible. I'm not one of them. While we have a fantastic love affair with property investment in this country, much of it is funded with borrowed money. And the banks' recent clampdown on lending to investors, in favour of first-time buyers, highlights the broader issue.

While our desire to own more property may be boundless, our ability to source finance is in the hands of the banks. In turn, the banks' ability to extend loans is currently reliant on international investors.

That's because deposits – the traditional source of funds for banks – fall far short of our banks' total loan books. The gap is filled by hundreds of billions of dollars in borrowings from overseas. Our banks, you might say, are dependent on the kindness of strangers.

Those offshore investors might one day decide to charge our banks significantly more for that borrowing or, in an extreme case, refuse to lend altogether. That unlikely scenario could trigger a full-blown Australian banking crisis.

Now let's move on to some less dramatic but more likely risks.

Lately there has been increasing talk of an economic downturn, if not recession. The recent sharemarket downturn is pointing in that direction, as is the sharply lower Australian dollar. Somewhat ironically though, the lower dollar itself may help us avoid a deep recession by stimulating export industries such as farming, tourism, wine and education.

For the banks, an economic downturn would crimp their revenue growth by slowing the volume of loans they make. In a deeper downturn, their loan books might even shrink.

A downturn would also be bad news for bank costs. As one major broker recently wrote: "With a weakening economic outlook in many areas of the world, asset quality deterioration is the biggest risk facing CBA and the sector." That's broker speak for an increase in bad debts. As a percentage of its loan book, Commonwealth Bank's bad debts charge for 2015 was an astonishingly low 0.16%. That's down from 0.41% in 2010 and 0.73% in 2009. It's so low, in fact, that I believe it must rise under any economic conditions that are less than idyllic.

The buy signal

Those, then, are the cases for and against investing in the shares of the big banks at the moment. Whether you see the current impressive dividend yields as a tremendous opportunity or a justifiable warning signal depends largely on your view of the outlook for the Australian economy.

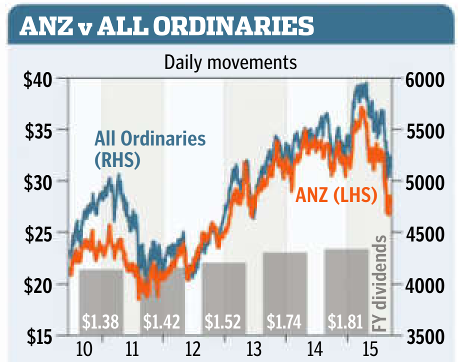
Personally, I put the chance of the status quo continuing for bank shareholders at about 35%-40%. It's been a mistake to bet against the Australian economy and property market for the past 24 years and a weak Australian dollar may just provide enough of a "shock absorber" to keep things ticking along.

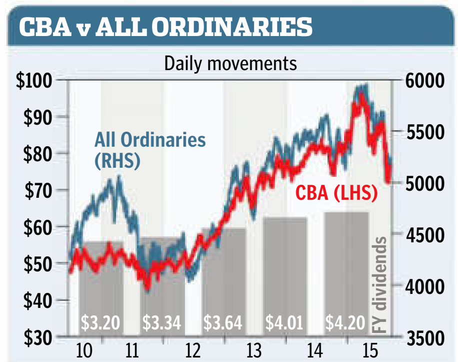
That means I think it's somewhat more likely that tougher times lay ahead. I don't believe we've permanently banished recessions from our economy and the clouds on the horizon concern me. So while a 20% price fall over the past six months may have removed the worst of the excesses I feared in April, I'll be sitting on the sidelines a while longer when it comes to investing in the big banks.

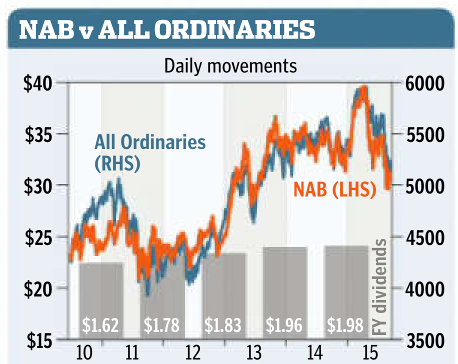
At the same time, I'll be keeping an eye on Buffett's Aussie investments. He used the GFC as an opportunity to invest many billions of dollars in the American banking industry. If some of my concerns come home to roost and we face a domestic downturn at some point, then it may pay to take a leaf out of Buffett's American playbook and buy Aussie banks at that point.

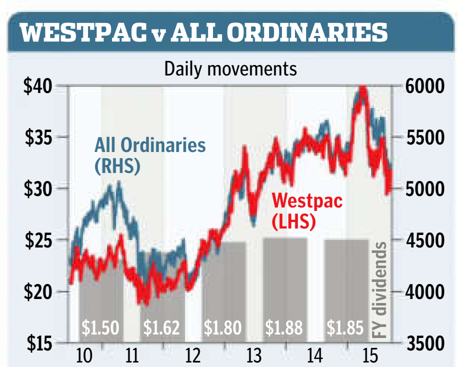
And given his comments earlier this year, you may just find yourself investing ahead of the "Oracle of Omaha" rather than the other way around.

Greg Hoffman is an independent financial educator, commentator and investor. He is also chairman of Forager Funds Management.









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Back down to earth

A float's rosy predictions can often be a trap, warns Roger Montgomery

THE REPORTING SEASON FOR THE 2015 financial year is now behind us and some of Montgomery Investment Management's attention – as at many leading brokers – has returned to the pipeline of initial public offerings (IPOs) slated for marketing over the coming months.

While MIM has participated in a number of IPO gems, this reporting period was marked by disappointing results from companies that have recently become public entities and it serves as a warning for greater caution when assessing investments for your portfolio.

Dick Smith (ASX: DSH) is one such company that underwhelmed this reporting season after floating in December 2013. Although it listed for $2.20 a share and provided an attractive return for its vendors, its new shareholders are deeply in the red with the share price at around $1.40.

Clearly, there is a distinct difference between the float price and the subsequent market prices. So before investors are swept up by another round of public candidates, we thought it was timely to reiterate how this divergence can occur.

Perhaps the best place to start when analysing any float is to understand why the company is moving from private to public hands. When you receive a prospectus, turn to the section that details the use of funds. Does the company require capital for expansion, or are the sellers hoping to realise an investment?

Dick Smith was primarily floated as an exit strategy, though the former private equity owners retained 20% of the outstanding shares as a sign of faith in the business. Yet despite assuring the market at the 2014 financial results announcement that it had no intention of selling the shares at the prevailing market price, it exited the position in the following month.

Now, floating a company to realise a return is not an issue if the company is priced accordingly. Unfortunately, the prospects for a new float tend to be viewed through rose-coloured glasses.

Private businesses are typically marketed for an IPO with only a few years of financial statements and one year of forecast earnings. The statements are a mere snapshot of the business's fundamentals, and it is in the best interests of management and the sellers to set achievable targets.

Dick Smith is a relatively mature retailer and so its prospects are more dependent on same-store sales growth, rather than growth of the store network. Yet a main part of Dick Smith's growth strategy at the float was store openings.

When Dick Smith came to market in October 2013, it had 359 stores in its network. This included 298 branded stores in Australia, compared with 164 JB Hi-Fi stores and 206 Harvey Norman outlets.

At the 2014 full-year result, management planned to have 400 stores within the following 12 months but finished the year with 393 stores due to store closings. Management has also reduced the 2017 network target from 450 to 420-430 stores.

You might see similarities with another mature retailer. When Myer floated in 2009 it planned to expand its network from 65 to 80 stores over five years, with a longer-term target of 100 stores. It ended the 2015 financial year with 66 stores and has flagged more closures.

Both companies have also been challenged by soft retail conditions. Myer's weakening competitive position has been well documented, as it attempts to compete against large international players while also coping with a structural shift away from department stores. Dick Smith, however, disappointed the market by reporting weak same-store sales growth at the start of 2015-16.

High fixed costs make retail earnings very sensitive to top-line growth. Dick Smith extensively documented these risks in its prospectus but management commentary at the time was notably optimistic, expecting retail conditions to improve and a stable pricing environment among competitors. Fast-forward two years and the macro-economic outlook is decidedly more cautious.

As is painfully obvious in both instances, the short-term expectations for the business were too rosy. Investors must not extrapolate from a small window of historical statements or rely on management expectations when valuing a company. This is especially true for cyclical mature businesses such as retailers, as they are likely to be marketed during an upturn in their performances. This allows one party to exit at a favourable price while others are left with a position that was based on a bullish valuation.

There are certainly opportunities in IPO participation, particularly with non-cyclical businesses that have excellent prospects of sustainable growth. But MIM is deeply critical of some research analyst and management assumptions. Sure, MIM may miss out on short-term price appreciation associated with this optimism, but it will also limit the risk of capital loss over the longer term.

Roger Montgomery is the founder and CIO at The Montgomery Fund. For his book Value.Able*, see rogermontgomery.com.*

Fear of the unknown

While the herd is crashing about, keep away from the 'buy' button, advises Marcus Padley

IT'S TOUGH WRITING ABOUT THE stockmarket when it's so volatile. It's like joining a share-tipping competition in a tabloid newspaper. At some point you are bound to be made to look stupid if you allow yourself to be compared with a dartboard, a monkey, an astrologer or one of the oarsome foursome. But let's give it a go.

If you think about it, the stockmarket only ever crashes. I don't remember that it ever went up 25% in a day. The reason, of course, is a possibly fabricated hypothesis that losses have three times the emotional impact of a gain. In other words, we fear a loss three times more than we want a gain. This would suggest that share prices fall three times faster than they rise.

The 2007-08 GFC was the obvious example. Four years' worth of investing, nurturing, hoping, praying, luck and good intentions were destroyed in 16 months. Stocks go up like a balloon and down like a rocket. It is easier to lose confidence than it is to build it. It takes five minutes to be fearful but you can't get confident in five minutes. It takes a lot longer to build trust than it does to lose it. That's why, although it is almost seven years since the GFC, we have yet to recover the sharemarket peak.

The current correction is no different – it has been swift and it has been serious. As proof of that, I would highlight the pick-up in the VIX – the volatility or "fear" index in the US. The spike is the most marked since 2009, when Lehman Brothers went bust in the GFC. Even when we were worrying about Greece and the collapse of the European Union, it didn't get this high. So this correction is not to be dismissed; it should be respected.

You have to stop thinking every day is the bottom because it is too optimistic to think this sort of scare will conveniently end with the first bounce. The herd is crashing about. It doesn't care about intrinsic value and it is too early to "buy when others are fearful" or to listen to the puritanical tones of Warren Buffett quotes that purport to excuse the utter inaction of value investors in times of trouble. They are already embarrassing themselves with their pious calls to buy, their guesswork. In the middle of a furious disorder, when you haven't got more money than you need, calmly assessing and putting your faith in some value calculation that depends on a pack of assumptions is basically impossible. The marketing may suggest it is easy to be cool when all around you are losing their heads, but it's not. This uncertainty will linger.

What I can say to comfort you, however, is that, while this correction is the first break of a two- to three-year bull market, it is not another GFC because the GFC was a credit crunch, a global contagion of the banks, and to get over it we have printed money, cut rates and plastered over the issues with more financial band-aids than anything we have seen deployed in the past. This crunch is not that. It is not the much-feared GFC 2; it is not a financial crisis; this is a growth expectations crisis. Not nearly so scary.

Nor is this a stockmarket crash like 1987's. That was caused by a build-up of pressure, of prices, over a long period of time in advance of a first drop that turned into a waterfall. The parallels between that and the current correction are hard to make. Before 1987 the stockmarkets had gone exponential. That has not happened here. We have had a bull market with admittedly thin foundations, considering the debt and denial that has built it. But valuations are not nearly as stretched as they were in 1987.

If it happens, this correction will be unique, as they all are. We will name it only in hindsight – the "Chinese correction", the "QE correction", the "debt correction", the "growth correction". It will be something that only becomes clear later because, so far, the reasons behind this correction are more fear than reality. And that's why it should be respected. Because as in the early stages of the GFC, the nature of it has yet to reveal itself and, until it does, you don't know what you're dealing with. So don't be too quick on the "buy" buttons.

Marcus Padley is a stockbroker and the author of the daily Marcus Today

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STORY: VANESSA GILBERT

NEW HARVEST

Australia was well positioned to benefit from China's first burst of growth – now we must look to the next phase

ARE YOU DOWN IN THE dumps about the bleeding mining sector? Do you think the party is over and there is nowhere left to invest for great returns? You need to move on from the doom and gloom. Australia has an abundance of what the world wants, and it's not just iron ore.

We are fortunate to live in a beautiful county that is right on the doorstep of Asia. On top of that we speak English, the world's language for business, have a pleasant climate, a stable government and a respected financial system that has proven its resilience to global shocks.

The falling Australian dollar has also made exports and inbound tourism more attractive.

And Deloitte's economists say Australia's mining industry still has a long way to run; the world won't stop building, and coal-fuelled power stations won't be shut down overnight. But mining won't be what it once was.

That's why we need to look the new crop of sectors that will drive the country's growth over the coming decades: the fab five of Australia's future – agribusiness, education, tourism, gas and wealth management.

Australia is home to a handful of exceptional businesses that are capitalising on Asia's booming population. Step aside overheated mining stocks, there are new kids in town.

Agribusiness

The world's population is forecast to grow by 60 million people a year over the next 20 years. Most of that growth will occur in Asia and India – nice and close to Australia's bounty of food resources.

A larger population requires more food. As China's population moves from the country to the city, the overall standard of living will improve, as will the demand for higher-quality fresh foods. Another byproduct of a booming population is the conversion of farmland to urban centres. Less farmland means a restriction on the supply of locally grown products and more opportunities for Australia's food exporters.

Our top food producers and exporters to Asia include Bellamy's, Capilano Honey, Tassal Group and Ridley Corporation.

Education

As an English-speaking country with a stable political environment, high degree of personal safety and a nice climate to boot, it's little wonder so many students flock here to study. Our education system is so popular that it has grown to become our third-biggest export earner. In 2013 the sector generated $15 billion. And there is the bonus that students love it here so much their families like to visit too.

Australia's top listed education providers include Navitas and 3P Learning.

FREE TRIAL Check out Skaffold's latest growth forecasts and stock ratings for Bellamy's, 3P Learning, Flight Centre and Magellan plus every other company listed on the ASX (and 2000 global stocks). You'll quickly see why they stand head and shoulders above their competitors. Sign up for a free trial at skaffold.com/money. All valuations and data are provided by Skaffold Pty Ltd. Vanessa Gilbert is one of Skaffold's founders. Data is accurate at September 11 2015.

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Tourism

Australia is an awesome place to visit and explore and for international tourists a lower Australian dollar is the icing on the cake. The number of inbound tourists is expected to double over the next two decades.

Tourism Australia's "Tourism 2020" paper has set a target of providing an additional 40,000 hotel rooms. Hotel operators, casinos and the recruiters that will find the additional staff to service the new rooms will all benefit. The companies that get people here – travel agents, airlines and cruise operators – should also get a nice slice of the pie.

Mantra Group, Echo Entertainment and Flight Centre are already top performers. They're set to reap the benefits of a booming tourist sector.

Natural gas

After coal and uranium, natural gas is Australia's third-largest energy resource and it's our fourth-biggest export. By 2020 China plans to raise non-coal and non-oil consumption for energy generation to 20%, and 10% of that target is earmarked for gas.

The wonderful thing about gas, from Australia's perspective, is that it's difficult to store and expensive to ship. This gives our local producers a strong competitive advantage over their European and North American competitors because of our proximity to Asia.

Unfortunately, there are no gas producers worthy of your attention. The ones that do meet Skaffold's strict criteria for balance sheet quality and economic performance are forecast to deliver stagnant or negative growth over the next two years. The remaining 100-odd stocks are pure speculative plays.

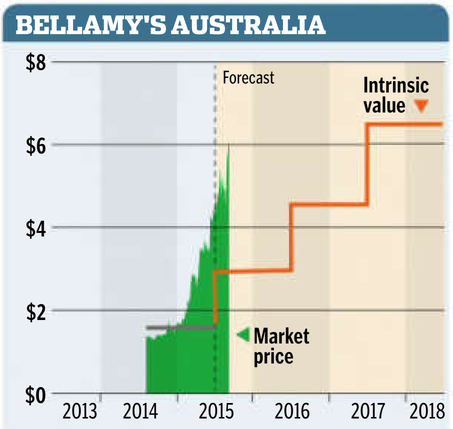
Wealth management

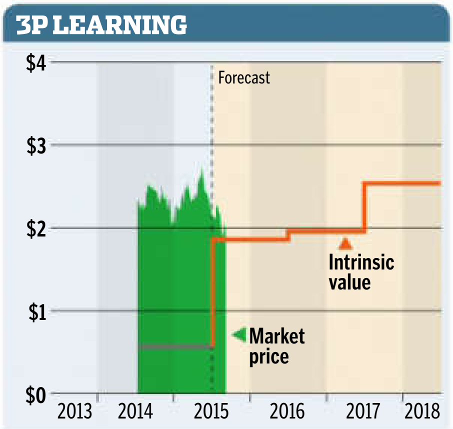
As the world's population gets older, it is also getting richer. And it's expected that by 2050 Asia's middle class will control more than half the world's financial assets.

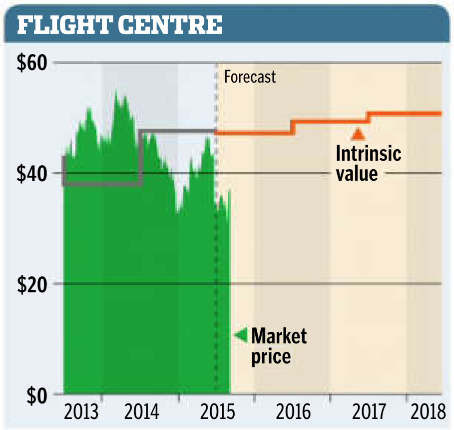
Australia's private wealth management industry is the ninth largest in the world and the third largest in the Asia-Pacific region. Given its resilience during the GFC, we have street cred. Our proximity to Asia makes Australia an attractive place to invest.

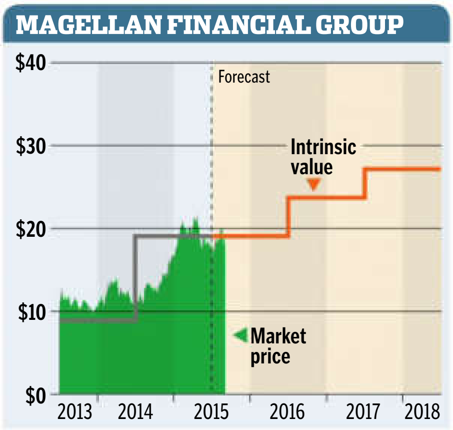
In addition to sharing our wisdom with the world, local funds management businesses have the opportunity to expand their offerings to foreign investors.

Australia's top-performing fund managers positioned for future growth include Magellan Financial Group, Perpetual and K2 Asset Management.









SECTORS AND COMPANIES TO WATCH

COMPANY	BUSINESS	SKAFFOLD SCORE	3YR GROWTH FORECAST (%PA)	GOOD PRICE TO PAY	2018 VALUE
AGRIBUSINESS					
Bellamy's Australia (BAL)	Organic baby food	A1	41%	$3.16	$6.31
Capilano Honey (CZZ)	Honey	A1	17%	$12.55	$17.17
Tassal Group (TGR)	Atlantic salmon	B2	15%	$2.80	$3.69
Ridley Corporation (RIC)	Stockfeeds	B2	19%	$0.68	$0.95
EDUCATION					
Navitas (NVT)	University and college courses	B1	7%	$4.01	$4.61
3P Learning (3PL)	Online school education	A2	17%	$1.86	$2.53
TOURISM					
Mantra Group (MTR)	Hotels, resorts, serv apts operator	A2	12%	$1.44	$1.78
Echo Entertainment (EGP)	Hospitality, dining, gaming	A2	11%	$2.25	$2.75
Flight Centre (FLT)	Travel	A2	4%	$47.21	$50.64
WEALTH MANAGEMENT					
Magellan Finl Gp (MFG)	Global fund manager	A1	20%	$18.86	$27.10
Perpetual (PPT)	Diversified finl services	A1	13%	$36.71	$46.56
K2 Asset Mgment (KAM)	Local, global fund manager	A1	17%	$0.38	$0.52

Source: Skaffold as at 11-Sep-15 close of trade.

DATABANK

Your guide to the super data

Australians have two main investments – their home and their superannuation. Super may not be as riveting a topic but it's just as important for your financial security.

SuperRatings is a totally independent Australian superannuation research company. It is the leading source of superannuation information to the Australian media and is renowned for its timely commentary and opinions on the various superannuation funds available. Calculators, fund comparisons, fund ratings, news and expert opinion can be found at www.superratings.com.au.

The data in these tables compares some of the most popular super funds. They are a mix of industry funds, master trusts and government funds. Industry funds are set up by employer associations and unions; many are offered publicly, some have restricted membership (**NP**). Master trusts (corporate and personal) are set up by banking, insurance or financial planning groups. All performance figures are after all fees, charges and tax applied to the fund have been deducted.

The table here shows performance of funds' balanced options. But most super funds offer many other choices of investment mix.

Returns are as at July 31, 2015.

NP means membership of the fund is restricted.

Pr means performance results are preliminary.

What they mean

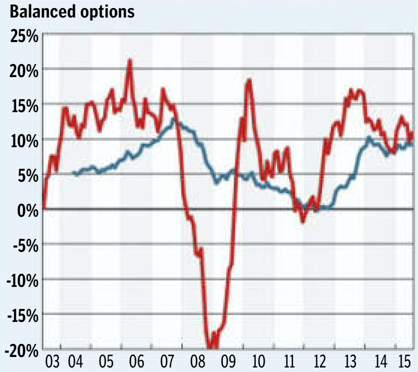
Rank All tables have been ranked by five-year returns. Returns are net of maximum fees. High balances may qualify for lower fees and thus better returns. Rankings for one- and seven-year returns show the performance of the particular fund compared with peers.

SuperRatings rating SuperRatings assesses over 250 superannuation funds and products. The best super fund manager award is given to the fund that provides the best value for money to members in Australia. SuperRatings takes into account risk-adjusted investment performance, fees, insurance, service delivery, education, financial planning facilities, employer support, fund governance and flexibility of the options. The judging is mainly quantitative but does include qualitative assessment.

Platinum are best value for money funds; **Gold** are good value for money; **Silver**, reasonable value; **Bronze** are below average in performance and features; and **Blue** are bottom of the ladder.

ROLLING MEDIAN RETURNS

Balanced options



ROLLING 1 YEAR — ROLLING 5 YEAR

Graph shows rolling returns for SuperRatings' SR50 Balanced Index median since June 2003

BEST SUPER FUNDS: BALANCED OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK[1]	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
Telstra Super Corp Plus Balanced	Corporate	10.6%	1	11.1%	17	7.9%	2	Plat'm
UniSuper Accum (1) Balanced	Industry NP	10.4%	2	12.6%	4	7.7%	3	Plat'm
AustralianSuper Balanced	Industry	10.4%	3	12.5%	5	7.1%	8	Plat'm
CareSuper Balanced	Industry	10.3%	4	11.9%	9	7.5%	5	Plat'm
HOSTPLUS Balanced	Industry	10.3%	5	11.7%	10	6.7%	16	Plat'm
REST Core Strategy	Industry	10.2%	6	10.8%	25	8.0%	1	Plat'm
Equip Corp Balanced Growth	Industry	10.2%	7	12.1%	7	7.6%	4	Plat'm
Kinetic Super Growth	Industry	10.1%	8	9.9%	33	-	-	Gold
Cbus Growth	Industry	10.1%	9	10.8%	24	6.8%	15	Plat'm
HESTA Core Pool	Industry	9.9%	10	10.9%	22	6.8%	13	Plat'm
AustSafe Super MySuper (Balanced)	Industry	9.8%	11	11.4%	14	7.0%	10	Gold
Aon MT Corp Ess Balanced Growth Active	MT-Corporate	9.7%	12	12.0%	8	6.7%	17	Plat'm
GESB Super Balanced Growth Plan	Government	9.7%	13	10.7%	27	7.1%	9	Plat'm
First State Super Diversified	Industry	9.7%	14	11.3%	16	7.1%	7	Plat'm
BUSSQ Premium Choice Balanced Growth	Industry Pers'l	9.6%	15	11.5%	12	6.6%	18	Plat'm
Vision SS Balanced Growth	Industry	9.6%	16	10.7%	28	6.1%	28	Plat'm
Plum Pre-mixed Moderate	MT-Corporate	9.6%	17	10.8%	26	6.9%	12	Plat'm
CSC PSSap MySuper Balanced	Government	9.5%	18	13.4%	1	6.1%	27	Plat'm
Sunsuper for Life Balanced	Industry	9.5%	19	11.1%	18	6.6%	19	Plat'm
Catholic Super Balanced	Industry	9.5%	20	10.9%	21	6.9%	11	Plat'm
SR50 Bal'd (60%-76% growth) Index Median		9.2%		10.8%		6.4%		

[1] Rankings are made on returns to multiple decimal points.

SUPERRATINGS INDICES: MEDIAN RETURNS

Index	1-year return	3-year returns	5-year returns	7-year returns
SR25 High Growth (91-100%) Index	13.4%	16.5%	10.3%	6.5%
SR50 Growth (77-90%) Index	11.8%	14.8%	9.8%	6.5%
SR25 Conservative Bal (41-59%) Index	8.5%	9.7%	7.5%	5.7%
SR50 Capital Stable (20-40%) Index	6.4%	7.1%	6.4%	5.4%
SR25 Secure (0-19%) Index	2.4%	3.3%	3.7%	3.7%
SR25 Property Index	11.0%	11.1%	10.3%	4.6%

Percentages in brackets indicate proportion of growth assets.

TOP 10 AUSTRALIAN SHARES SUPER FUND OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
Perpetual WealthFocus Industrial Share	MT Personal	12.5%	1	8.3%	6	10.7%	1	Silver
MLC MKey MLC IncomeBuilder	MT Corporate	11.8%	2	10.8%	1	9.6%	2	Gold
REST Australian Shares	Industry	11.0%	3	8.0%	7	8.8%	3	Plat'm
Telstra Super Corp Plus Australian Shares	Corporate	10.5%	4	5.8%	25	7.7%	9	Plat'm
Perpetual WealthFocus Australian Share	MT Personal	10.3%	5	1.9%	48	8.1%	7	Silver
Catholic Super Australian Shares	Industry	10.3%	6	6.5%	16	8.6%	4	Plat'm
HOSTPLUS Australian Shares	Industry	10.3%	7	8.4%	4	8.5%	5	Plat'm
StatewideSuper Australian Shares	Industry	10.2%	8	8.0%	8	7.3%	14	Gold
HESTA Australian Shares	Industry	10.2%	9	5.2%	35	8.2%	6	Plat'm
AustralianSuper Australian Shares	Industry	10.1%	10	6.7%	13	7.5%	11	Plat'm
SR50 Australian Shares Index Median		9.2%		5.8%		6.9%		

ROLLING MEDIAN RETURNS

Australian share options

ROLLING 1 YEAR ROLLING 5 YEAR

Graph shows the rolling returns for SuperRatings' SR50 Australian Shares Index median since June 2003

TOP 10 INTERNATIONAL SHARES SUPER FUND OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
Plum Vanguard International Shares Index	MT-Corporate	15.3%	1	30.6%	5	9.0%	9	Plat'm
BT Lifetime Super Emp BT International Share	MT-Corporate	15.2%	2	30.0%	6	9.1%	8	Silver
LUCRF Super International Shares	Industry	15.1%	3	22.4%	32	9.3%	4	Plat'm
CareSuper Overseas Shares	Industry	15.1%	4	25.7%	23	10.9%	1	Plat'm
Equip Corp Overseas Shares	Industry	14.9%	5	27.1%	20	9.3%	3	Plat'm
BT Bus Super BT Core Global Shares	MT-Corporate	14.8%	6	29.1%	9	8.8%	12	Silver
REST Overseas Shares	Industry	14.6%	7	26.5%	22	9.3%	5	Plat'm
UniSuper Accum (1) International Shares	Industry NP	14.5%	8	28.0%	15	9.3%	6	Plat'm
StatewideSuper International Shares	Industry	14.5%	9	28.3%	14	6.3%	37	Gold
OnePath Integra OnePath Global Shares	MT-Corporate	14.3%	10	34.3%	1	8.3%	16	Silver
SR50 International Shares Index Median		13.5%		25.2%		7.7%		

ROLLING MEDIAN RETURNS

International share options

ROLLING 1 YEAR ROLLING 5 YEAR

Graph shows the rolling returns for SuperRatings' SR50 International Shares Index median since June 2003

TOP 10 DIVERSIFIED FIXED INTEREST SUPER FUND OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
HOSTPLUS Diversified Fixed Interest	Industry	8.0%	1	5.9%	1	7.7%	1	Plat'm
AustralianSuper Diversified Fixed Interest	Industry	7.5%	2	5.8%	2	7.4%	5	Plat'm
RBF RBF Fixed Interest	Government	7.4%	3	5.7%	3	7.7%	2	Plat'm
StatewideSuper Diversified Bonds	Industry	7.0%	4	5.6%	4	7.2%	6	Gold
CareSuper Fixed Interest	Industry	6.8%	5	5.2%	8	7.1%	7	Plat'm
AustSafe Super Fixed Interest	Industry	6.7%	6	4.4%	13	7.5%	4	Gold
REST Bond	Industry	6.6%	7	5.5%	5	7.1%	8	Plat'm
Aon MT Corp Ess Fixed Interest Diversified	MT Corporate	6.3%	8	4.9%	10	6.5%	11	Plat'm
Equip Corp Fixed Interest	Industry	6.1%	9	4.8%	11	6.5%	9	Plat'm
Mercer Super Trust Mercer Fixed Interest	MT Corporate	6.1%	10	5.4%	6	6.5%	10	Plat'm
SR25 Diversified Fixed Interest Index		5.9%		4.4%		6.3%		

ROLLING MEDIAN RETURNS

Diversified fixed interest options

ROLLING 1 YEAR ROLLING 5 YEAR

Graph shows the rolling returns for SuperRatings' SR25 Diversified Fixed Interest Index median since June 2003

TOP 10 CASH SUPER FUND OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
MAP Cash	MT Corporate	4.0%	1	2.5%	2	4.1%	1	Silver
Aust Catholic Super & Ret Cash	Industry	3.7%	2	2.4%	11	3.8%	4	Plat'm
Vision SS Cash	Industry	3.7%	3	2.6%	1	4.0%	2	Plat'm
RBF RBF Cash	Government	3.7%	4	2.5%	8	3.7%	7	Plat'm
Sunsuper for Life Cash	Industry	3.6%	5	2.5%	5	3.8%	5	Plat'm
NGS Super Cash & Term Deposits	Industry	3.6%	6	2.5%	7	3.7%	6	Plat'm
Catholic Super Cash	Industry	3.5%	7	2.5%	4	3.7%	8	Plat'm
StatewideSuper Cash	Industry	3.5%	8	2.5%	3	3.6%	9	Gold
BUSSQ Premium Choice Cash	Industry Pers'l	3.4%	9	2.2%	23	3.4%	16	Plat'm
Club Plus Super Cash (Pr)	Industry	3.4%	10	2.4%	13	3.6%	11	Plat'm
SR50 Cash Index		3.2%		2.2%		3.3%		

ROLLING MEDIAN RETURNS

Cash options

ROLLING 1 YEAR ROLLING 5 YEAR

Graph shows the rolling returns for SuperRatings' SR50 Cash Index median since June 2003

Your guide to the managed funds data

Professionally managed investment funds can be the way to go if you don't have the time or expertise to manage your own investments. For a fee, the professionals do the work for you.
Morningstar (www.morningstar.com.au), a leading global provider of investment research, supplies our managed funds data. There were more than 6000 funds on offer when Morningstar launched its star rating system to help investors to initially identify quality funds. The ratings are not for predicting future performance. Funds less than three years old are not rated and funds smaller than $10 million and with a minimum investment of more than $25,000 have been filtered out. Morningstar relies on the fund managers to supply data monthly; if updates have not been provided, a fund may be omitted.

Here you'll find information on several asset classes – Australian equities, international equities and multisector funds (sometimes called balanced funds). For multisector funds we show the asset allocation for selected funds. Returns are as at August 31, 2015, and other data is correct as at August 31, 2015. For any enquiries about the funds tables, you can contact Morningstar on 1800 034 455 or help.au@morningstar.com.

APIR Identification number of the fund. They are voluntary and not all fund managers elect to have APIR codes assigned to their funds.

MER/ICR The management expense ratio is the annual management fee paid to the fund manager. The investment cost ratio is a new calculation of this fee, recommended by ASIC and IFSA, and includes an additional performance fee based on the one levied the year before. Fees are a percentage of your investment.

Returns The returns published are net (after) the annual management fee but do not take into account any transaction (entry/exit) fees an investor may have to pay. The returns are before tax.

Entry fees Entry fees are levied on most managed funds. The amount varies between fund managers and depends on the fund's asset class. International funds generally attract the highest entry fees – up to 6% of the amount invested. You can avoid most entry fees by going through a discount broker. If you are using the services of a financial adviser, try to negotiate a discount. If you go directly to a fund manager you'll usually be charged the full entry fee. Nil-entry-fee options are often available but higher management expense ratios usually apply.

Star rating Morningstar calculates and publishes star ratings for over 7000 funds monthly using the latest fund performance data. For a Morningstar star rating, a fund must be at least three years old.

★★★★★ very good performer ★★★★ good performer ★★★ average performer ★★ poor performer ★ very poor performer

NAp Not applicable **NAv** Not available

TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Fidelity Australian Equities	FID0008AU	0.85%	✗	$25,000	**$4594m**	-1.15%	10.17%	★★★★★
Perpetual Wholesale Industrial	PER0046AU	0.99%	✓	$25,000	**$2114m**	0.48%	12.68%	★★★★
Ausbil Australian Active Equity	AAP0103AU	0.90%	✗	$20,000	**$2080m**	-2.75%	8.36%	★★★★
Perpetual Wholesale Australian	PER0049AU	0.99%	✓	$25,000	**$1420m**	-4.97%	9.96%	★★★★
Perennial Value Shares Wholesale Trust	IOF0206AU	0.92%	✓	$25,000	**$1359m**	-1.40%	7.50%	★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Fidelity Australian Equities	HOLDING
Commonwealth Bank of Australia	12.01%
ANZ Banking Group	6.63%
Westpac Banking Corp	6.14%
Suncorp Group	5.43%
Telstra Corp	4.76%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Platinum International	PLA0002AU	NAv	✓	$20,000	**$11,047m**	17.62%	11.57%	★★★
Magellan Global	MGE0001AU	1.35%	✓	$20,000	**$7567m**	36.13%	21.00%	★★★★★
Walter Scott Global Equity	MAQ0410AU	NAv	✗	$20,000	**$1987m**	27.53%	14.97%	★★★★
Grant Samuel Epoch Glbl Eq Shldr Yld Uhg	GSF0002AU	1.25%	✗	$25,000	**$1818m**	22.07%	15.56%	★★★
IFP Global Franchise	MAQ0404AU	1.38%	✗	$20,000	**$1768m**	34.96%	20.29%	★★★★★

TOP 5 STOCKHOLDINGS

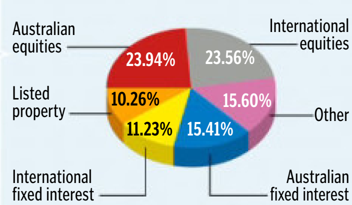
INTERNATIONAL SHARE FUND: Grant Samuel Epoch Gl Eq Shdr Yld Uhedged	HOLDING
Philip Morris International Inc	1.96%
National Grid	1.88%
Vodafone Group	1.84%
AT&T Inc	1.84%
Kinder Morgan Inc	1.83%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Advance Balanced Multi-Blend Ws	ADV0050AU	NAv	✓	$5000	**$3230m**	5.02%	8.21%	★★★
Advance Growth Multi-Blend Ws	ADV0085AU	NAv	✓	$5000	**$2699m**	5.41%	8.75%	★★
IOOF MultiMix Balanced Growth Trust	IOF0093AU	NAv	✗	$25,000	**$2348m**	9.29%	9.66%	★★★★
North Index Balanced	NMM0113AU	NAv	✗	$100	**$2048m**	6.35%	9.89%	★★★★
Advance Moderate Multi-Blend Ws	ADV0091AU	0.83%	✓	$5000	**$1882m**	3.77%	7.03%	★★★

ASSET ALLOCATION

Advance Balanced Multi-Blend Wholesale



TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
Perpetual Wholesale Ethical SRI	PER0116AU	1.18%	3-May-02	3.11%	**14.90%**	$864m	★★★★★
Perpetual Ws Share Plus L/S	PER0072AU	1.50%	14-Mar-03	3.10%	**14.90%**	$727m	★★★★★
Perpetual WFIA-Perpetual Share Plus L/S	PER0495AU	2.19%	10-Nov-08	2.08%	**13.77%**	$13m	★★★★★
Perpetual WFIA-Perpetual Ethical SRI	PER0491AU	2.28%	10-Nov-08	1.99%	**13.65%**	$26m	★★★★★
Antares Prof Dividend Builder	PPL0002AU	0.87%	6-Sep-05	2.03%	**13.18%**	$182m	★★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Perpetual Wholesale Ethical SRI	HOLDING
National Australia Bank	9.06%
Westpac Banking Corp	8.32%
Freedom Nutritional Products	5.78%
Commonwealth Bank of Australia	5.18%
Suncorp Group	4.02%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
CFS FC W Inv-PM Capital Ws Global Cos	FSF0798AU	1.20%	24-Feb-06	42.68%	**23.30%**	$19m	★★★★★
CFS FC Inv-PM Capital Global Cos	FSF0813AU	1.82%	6-Mar-06	44.14%	**22.94%**	$12m	★★★★★
Magellan Global	MGE0001AU	1.35%	29-Jun-07	36.13%	**21.00%**	$7567m	★★★★★
Acadian Wholesale Global Eqty Long Short	FSF0788AU	1.46%	20-Jan-06	36.76%	**20.43%**	$12m	★★★★★
IFP Global Franchise	MAQ0404AU	1.38%	17-Nov-04	34.96%	**20.29%**	$1768m	★★★★★

TOP 5 STOCKHOLDINGS

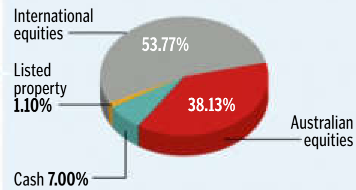
INTERNATIONAL SHARE FUND: Magellan Global	HOLDING
eBay Inc	7.58%
Microsoft Corp	7.05%
Yum Brands Inc	5.49%
Lowe's Companies Inc	5.30%
Visa Inc Class A	4.77%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
BT Class Inv Split Growth	BTA0012AU	1.55%	12-Mar-84	15.19%	**13.71%**	$231m	★★★★
Perpetual Ws Split Growth	PER0066AU	1.16%	17-Mar-99	15.07%	**13.50%**	$27m	★★★★★
Perpetual WFIA-Perpetual Split Growth	PER0496AU	2.13%	10-Nov-08	13.98%	**12.40%**	$13m	★★★★★
North Multi Manager Active High Growth	IPA0070AU	NAv	29-Oct-07	7.17%	**12.34%**	$90m	★★★★★
Fiducian Ultra Growth	FPS0014AU	NAv	1-Dec-08	12.27%	**12.23%**	$87m	★★★★★

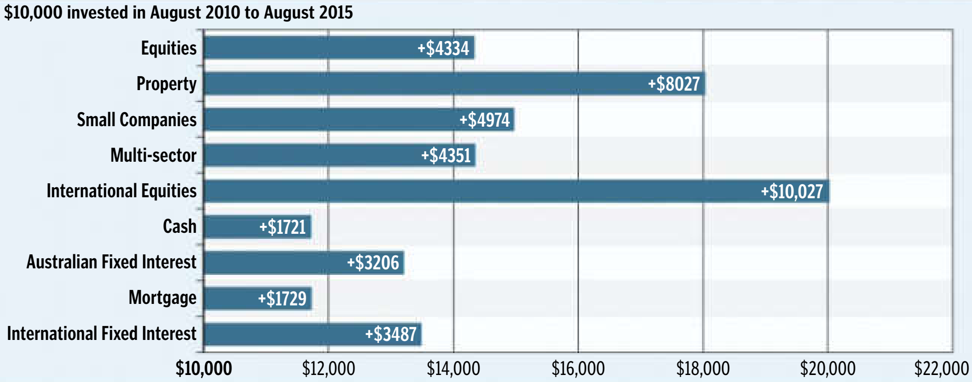
ASSET ALLOCATION

Perpetual Wholesale Split Growth



VALUE OF $10,000 BY ASSET CLASS

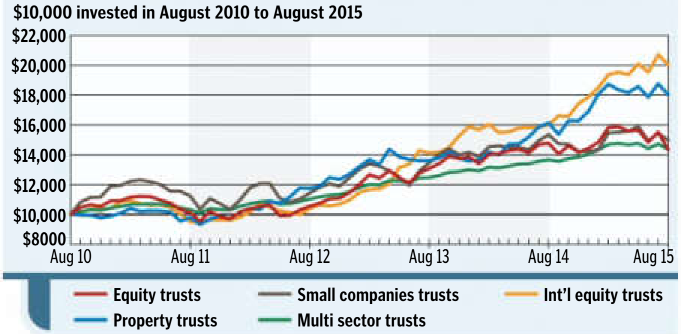
$10,000 invested in August 2010 to August 2015



The bar chart shows the five-year growth of $10,000 invested in different asset classes at the end of August 2010 until the end of August 2015. The property funds sector is showing the positive impact of managers becoming more conservative after the GFC and reducing debt. The strength of the international equity sector is partly because of the fall in the Australian dollar. $10,000 invested in the average-performing international share fund would have grown to $20,027 over the five-year period.

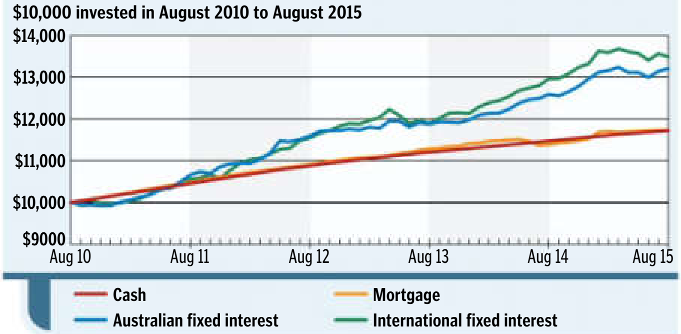
GROWTH OF $10,000 IN GROWTH ASSET CLASSES

$10,000 invested in August 2010 to August 2015



GROWTH OF $10,000 IN INCOME CLASSES

$10,000 invested in August 2010 to August 2015



Your guide to the money data

The key to smart credit is to be informed about what's on offer. Whether you're looking for the cheapest credit card, a card loaded with bells and whistles, a cheap personal loan or a high-paying term deposit you'll find the cream of the financial crop here.

CANSTAR (www.canstar.com.au), a leading researcher on financial services, supplies the data. CANSTAR research covers more than 15,500 retail products, including mortgages and credit cards. The products in the money data have been grouped and then ranked using variables such as the advertised rate of interest and the effective rate. Where a more complicated ranking methodology is required, CANSTAR applies its "five star" ranking system.

Star ratings take into account fees, features and flexibility. A five-star rating indicates that a product ranks in the top 5% of those available in Australia. Five-star products can be simple, low-cost products or fully featured but also reasonably priced.

What they mean

Five-star credit cards The CANSTAR credit card star ratings were arrived at in May 2015 after considering cost and a qualitative analysis of card features and associated reward programs. The relative competitiveness is indicated by the number of stars. Five stars denotes "excellent qualities". Features and costs may have changed since ratings were made.
Nominal rate The nominal interest rate is the simple annual interest rate. It's the amount you would earn if you were paid interest in one lump sum at the end of the year.
Effective rate The effective rate takes into consideration interest payments during the year. If interest is paid, say, monthly, there is a "compounding" effect over the year, as interest is paid on interest. Information is correct as at September 9, 2015.

FIVE STAR CREDIT CARDS – CONSTANT CREDIT

INSTITUTION	PRODUCT	RATE	ANNUAL FEE	INTEREST FREE DAYS[1]	REWARDS PROGRAM
ADCU	Low Rate Visa	10.99%	$49	55	✗
Bank Australia[2]	Low Rate Visa	9.89%	$59	0	✗
BankVic	Visa Silver	11.95%	none	44	✗
Community First CU	McGrath Pink Visa	8.99%	$40	55	✗
Community First CU	Low Rate Visa	8.99%	$40	55	✗
Greater Building Society	Credit Card	11.95%	$40	55	✗
Intech Credit Union	Titanium Visa 55	9.99%	$46	55	✗
ME Bank	frank	9.99%	none	55	✗
Police Bank	Visa	10.76%	$30	55	✗
SCU	Low Rate Visa	10.49%	$30	55	✗
Select Credit Union	Visa	10.99%	$30	55	✗
Teachers Mutual Bank	Teachers Credit Card	11.50%	none	55	✗
Victoria Teachers Mutl Bank	Visa Platinum	9.99%	$84	55	✗

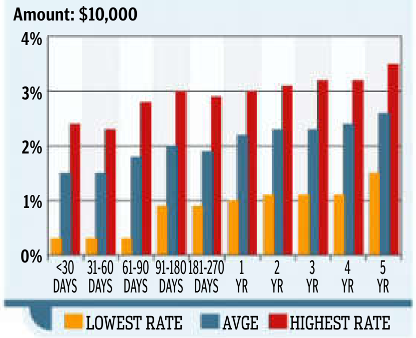
Listed alphabetically. [1]After statement date. [2]Was bankmecu. **Constant Credit Spenders** use their cards routinely and regularly spend more than they can afford. They are rarely able to repay the balance in full each month. Interest rates and fees are the major factors for these users.

FIVE STAR CREDIT CARDS – EVERYDAY SPENDER

INSTITUTION	PRODUCT	RATE	ANNUAL FEE	INT'T FREE DAYS[1]	REW PROGRAM
ANZ	Rewards Platinum	18.79%	$149	55	✓
Big Sky Building Society	Cash Rewards Visa	16.58%	none	45	✓
Coastline Credit Union	Visa Rewarder	17.00%	$75	55	✓
Coles	Rewards/Platinum Rewards MC	19.99%	$89	62	✓
Coles	Std/Platinum No Annual Fee MC	19.99%	none	62	✓
Commonwealth Bank	Std/Platinum MasterCard	20.24%	$59/$249	55	✓
Credit Unions[2]	Platinum MasterCard	20.24%	$99	55	✓
HSBC	Platinum	19.99%	none	55	✓
Hume Bank	Gold/Loyalty	17.95%	$60/$30	55	✓
ME Bank	frank	9.99%	none	55	✗
Myer	Myer Visa	20.69%	$69	62	✓
NAB	Velocity/Velocity Prem Rewards	19.99%	$95/$150	44	✓
NAB	Qantas Rewards	19.99%	$95	44	✓

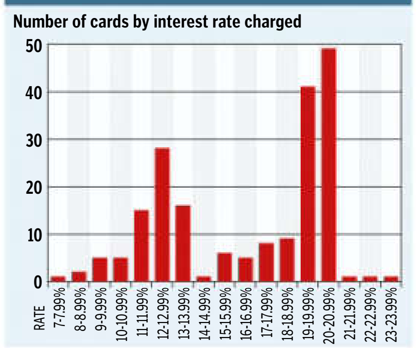
A selection listed alphabetically. [1]After statement date. [2]Beyond Bank, Catalyst Money, CUA, FCCS CU, Holiday Coast CU, Illawarra CU, IMB, MyState, QT Mutual Bank, Queenslanders CU, Service One Members Banking, The Shire CU, Unicredit WA and others; see cardservicesdirect.com.au.
Everyday Spenders use their cards for most of their spending but stay within their budgets. Typically they spend more than habitual spenders but pay the balance in full each month. Card rewards and other features are far more important in their choice of card than fees and interest rates.

TERM DEPOSIT YIELDS



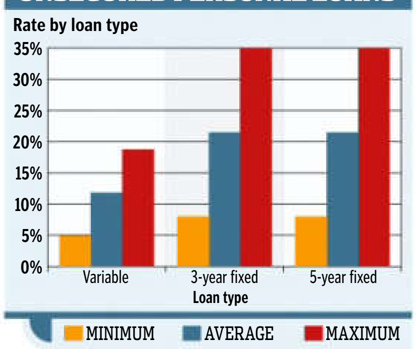
SOURCE: CANSTAR

CREDIT CARDS CHARGED



SOURCE: CANSTAR

UNSECURED PERSONAL LOANS



SOURCE: CANSTAR

LOW RATE CREDIT CARDS

INSTITUTION	PRODUCT	RATE	INTEREST FREE DAYS[1]	ANNUAL FEE	REWARDS PROGRAM
Quay Credit Union	Visa	7.99%	55	$36	✗
Community First CU	Low Rate Visa & McGrath Pink Visa	8.99%	55	$40	✗
Bank Australia[2]	Low Rate Visa	9.89%	0	$59	✗
ME Bank	frank	9.99%	55	none	✗
Intech Credit Union	Titanium Visa 55	9.99%	55	$46	✗
G&C Mutual Bank	Low Rate Visa	9.99%	50	$50	✗
Victoria Teachers Mutual Bank	Visa Platinum	9.99%	55	$84	✗
SCU	Low Rate Visa	10.49%	55	$30	✗
Police Bank	Visa	10.76%	55	$30	✗
ECU Australia	Low Rate Visa	10.95%	55	$48	✗
Select Credit Union	Visa	10.99%	55	$30	✗
ADCU	Low Rate Visa	10.99%	55	$49	✗

Ranked by annual interest rate, then fee, then interest-free days, then alphabetically. [1]After statement date. [2]Was bancmecu

SAVINGS ACCOUNTS WITH PROMOTIONAL BONUSES ($2000)

INSTITUTION	PRODUCT	NOMINAL RATE	PROMO BONUS	RATE W'OUT ANY BONUS	PERIOD AND CONDITIONS
RaboDirec	High Int Savings Pers'l	3.50%	0.95%	2.55%	NAv; 3 months
BankSA/Bank of Melbourne	Maxi Saver	3.50%	2.00%	1.50%	New account holders; 3 months
St.George Bank[1]	Maxi Saver	3.50%	2.00%	1.50%	New account holders; 3 months
Citibank	Online Saver	3.40%	0.80%	2.60%	NAv; 4 months
Bank of Sydney	SuperRate Account	3.30%	1.05%	0.00%	2.25% min $200 dept pm, linked acct; 4m
Westpac	eSaver	3.25%	1.50%	1.75%	New accounts; 3 months
Bankwest	TeleNet Saver	3.15%	1.15%	2.00%	NAv; 4 months
BOQ	WebSavings	3.10%	0.95%	2.15%	New customers; 3 months
ANZ	Online Saver	3.10%	1.10%	2.00%	New accounts; 4 months

Ranked by nom. rate, then w'out bonus, then alpha. Initial dep't may need to be >$2000. [1]NSW, Qld, Vic, WA, Tas

SAVINGS ACCOUNTS WITH CONDITIONAL BONUSES ($2000)

	PRODUCT	NOMINAL RATE	COND'L BONUS	RATE W'OUT BONUS	BONUS CONDITIONS
RAMS	Saver	3.60%	1.60%	2.00%	Min $200 dept pm & no withdrawals
ING DIRECT	Savings Maximiser	3.50%	1.25%	2.25%	Min $1000 dept pm, linked ING account
UBank[1]	USaver with Ultra	3.37%	1.06%	2.31%	External dept $200pm into Ultra/USaver
ME Bank	Online Savings	3.20%	0.95%	2.25%	Hold Everyday TA; purch via Paypass weekly
RaboDirect	PremiumSaver	3.05%	1.65%	1.40%	Balance increase of $200 at month's start
NAB	Reward Saver	3.05%	2.55%	0.50%	Min one deposit pm, no withdrawals
Bankwest	Regular Saver	3.05%	3.05%	0.00%	$50-$500 deposit pm, no withdrawals
CUA	eSaver Plus	3.00%	0.95%	2.05%	Min $200 deposit pm, no withdrawals

Ranked by nom rate (excl promo rate if any), then w'out bonus, then alpha. Initial dep't may need to be >$2000. [1]USaver account must be in credit.

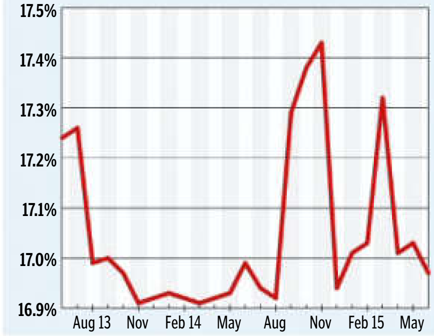
UNSECURED PERSONAL LOANS ($10,000)

INSTITUTION	PRODUCT	MAXIMUM INT. RATE	ONGOING FEE (PA)	ESTABLISHMENT FEE	MAXIMUM LOAN
RateSetter	Unsecured Personal Loan	4.90%	none	$200	$35,000
Citibank	Ready Credit	6.90%	none	$129	$60,000
Community Mutual Group	Enviro Loan	7.95%	none	$195	none
Newcastle Permanent	Personal Loan Unsecured	7.99%	none	$195	$30,000
Bank Australia[1]	Personal Loan, Property Owners	8.39%	none	$150	none
Citibank	Ready Credit Fixed Payment	8.99%	none	$99	$60,000
RateSetter	Unsecured Personal Loan Fixed	9.10%	none	$200	$35,000
Summerland CU	Eco Loan Unsecured	9.25%	none	$130	none
SocietyOne	Unsecured Loan AA borrower	9.65%	none	none	$35,000

Ranked by the maximum rate and establishment fee then listed alphabetically. [1]Was bankmecu.

CREDIT CARD INTEREST

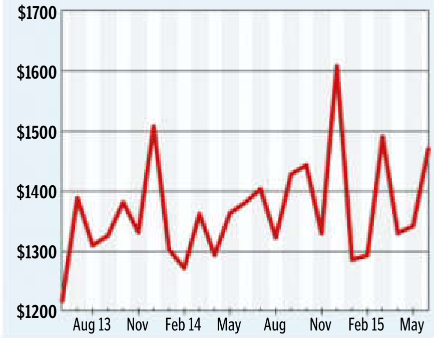
Average interest charged



SOURCE: CANSTAR

AVERAGE CREDIT CARD SPEND

Per card each month



SOURCE: CANSTAR

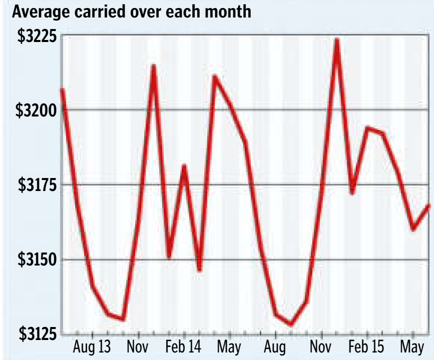
CREDIT CARD INTEREST

Monthly interest paid

SOURCE: CANSTAR

CREDIT CARD DEBT

Average carried over each month



SOURCE: CANSTAR

Tax tips for investors

Get a free ticket to hear the experts at the 2015 Property Buyer Expo

IS THE TAX ON YOUR investment income wearing you down? Why not offset it with a few deductions? Knowing what and how to claim can be hard work, but when done correctly it could help you save over $90,000, according to tax expert Tyron Hyde, from Washington Brown quantity surveyors. Hyde will give his tax deduction tips at the 2015 Sydney Property Buyer Expo at the end of the month and thanks to the event organisers, *Money* readers can attend free – an exclusive saving of $20.

If you've got an investment property, the tax office allows you to claim a deduction for the cost of repairs and maintenance. You can claim some items as a one-off and others, such as depreciating assets, over a number of years. And don't forget you may be liable for capital gains tax when you sell your investment property, so it's important to make the most of your deductions to offset some of the money you have to hand over to the government.

Some claimable items are more obscure than others, so it can be worthwhile consulting an accountant to make sure you're claiming the right things. Deductions are allowed for, among others, advertising for tenants, body corporate fees and charges, pest control, property agent fees and commissions, stationary and postage, travel for property inspections or rent collection, and insurance.

If you haven't maintained a depreciation schedule, now is the time to start. As with tax deductions on your employment income, you need to be able to prove to the tax office that you're making a valid claim. If you buy anything new for your rental property, keep the receipts and file them in a safe place.

A depreciation schedule can help you keep a log of your capital works (that is, any structural elements that are available to claim) and plant and equipment deductions (any removable assets that are available to claim).

If you can maximise depreciation from your property assets, Hyde believes you can turn $1 into $90,046. So clearly you'd be throwing away money if you'd didn't take advantage of tax deductions – they can help you feel as if you're in control of your investment cash flow.

The Property Buyer Expo will be held over three days from October 30 at Sydney Showground at Sydney Olympic Park.

Hyde will discuss the four elements of tax deduction that property owners get wrong: not claiming enough, not claiming for properties built before 1987, missing claimable items and failing to claim for a past owner's renovations.

Money magazine's editor, Effie Zahos, will discuss the ways you can buy an investment property with just $50 a week. Joining her will be regular *Money* contributors Margaret Lomas, from Destiny Financial Solutions, Chris Gray, from Your Property Empire, and Ben Kingsley, from Empower Wealth.

How to get this offer

To claim your free ticket, saving you $20, visit propertybuyerexpo.com.au.

- Select "Buy a ticket"
- Enter your details
- Enter the promo code MMPBE